MARKET PROJECTING BUSINESS PROSPECTS

The MAGAZINE of WALL STREET

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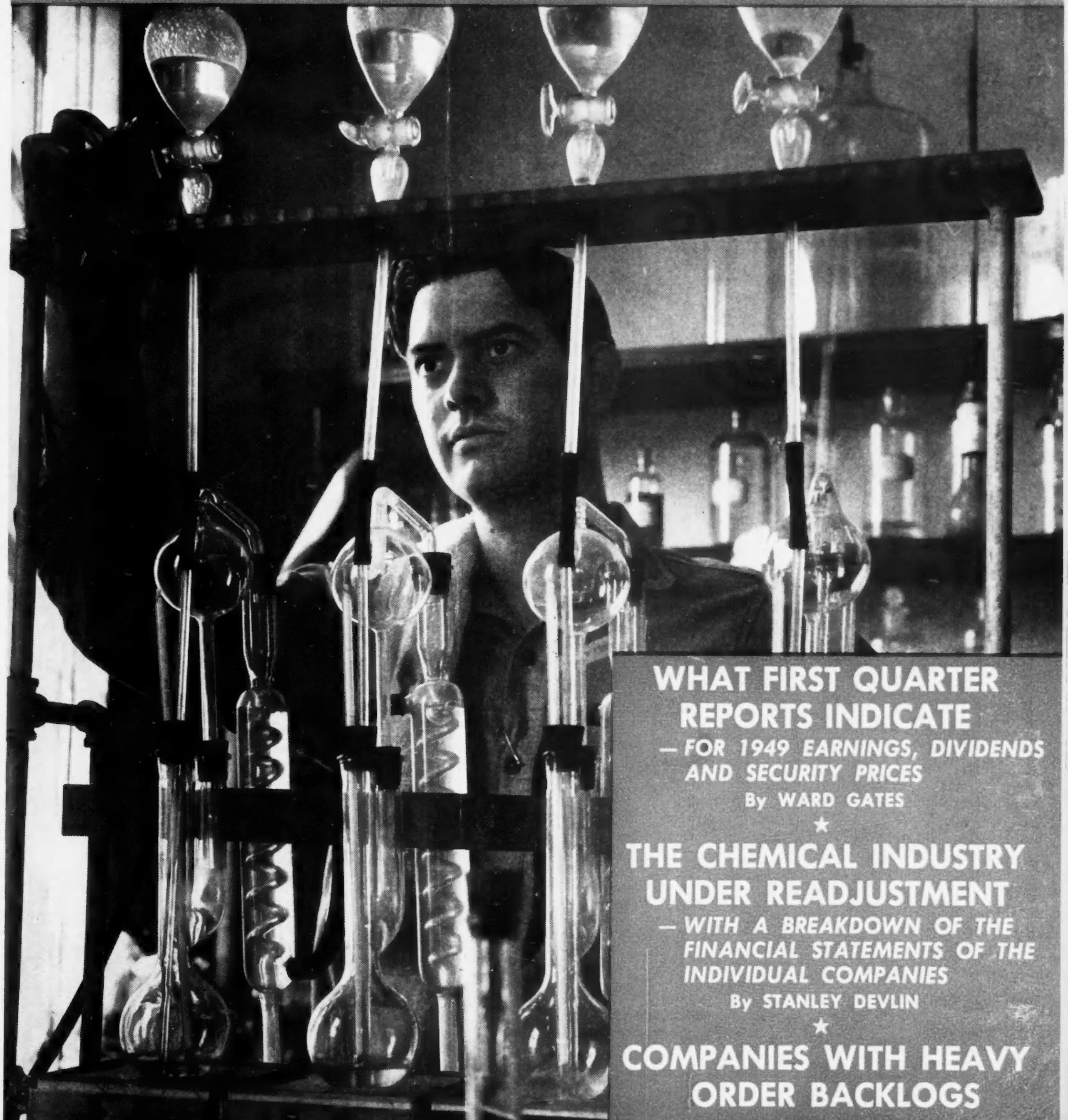

WHAT FIRST QUARTER REPORTS INDICATE

— FOR 1949 EARNINGS, DIVIDENDS AND SECURITY PRICES

By WARD GATES

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THE CHEMICAL INDUSTRY UNDER READJUSTMENT

— WITH A BREAKDOWN OF THE FINANCIAL STATEMENTS OF THE INDIVIDUAL COMPANIES

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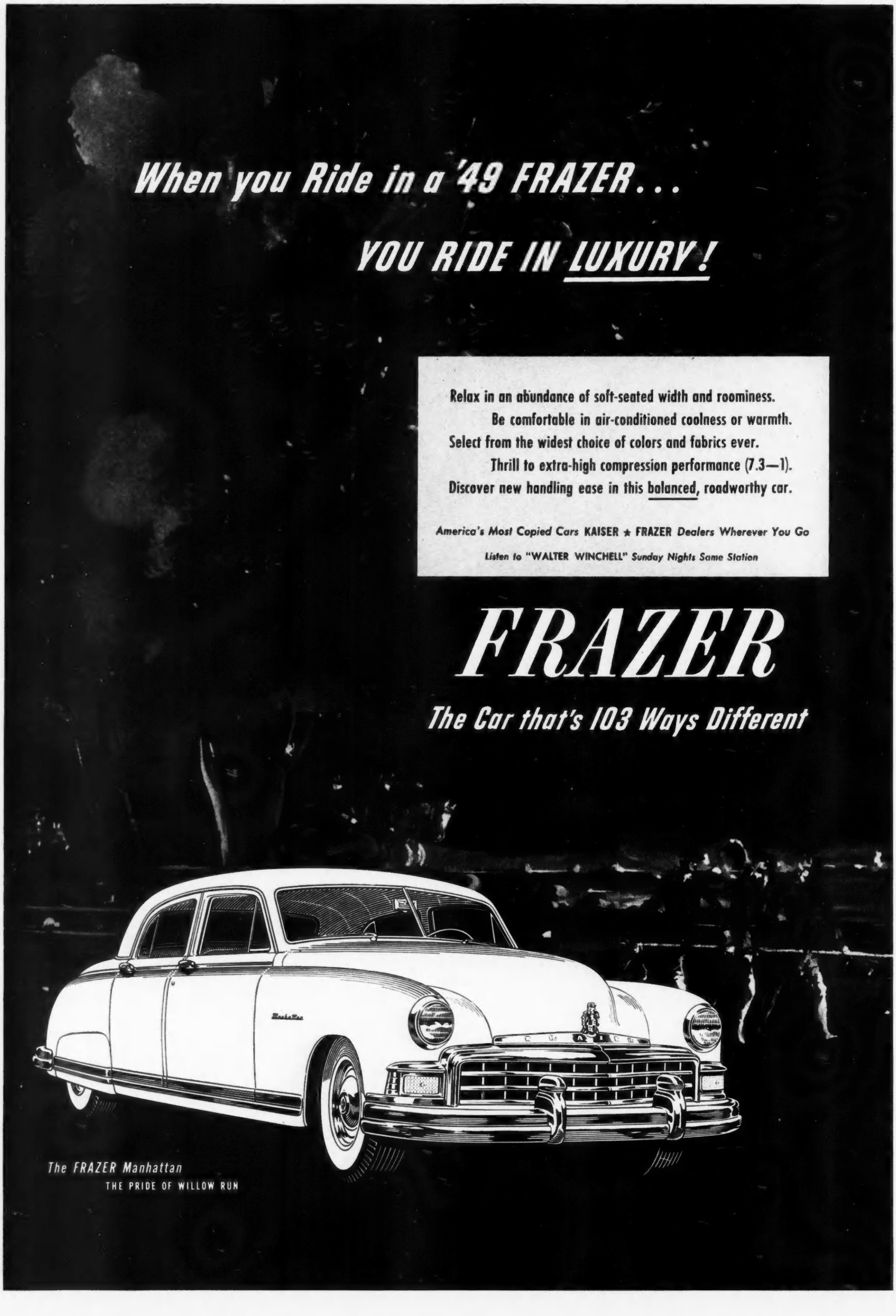
COMPANIES WITH HEAVY ORDER BACKLOGS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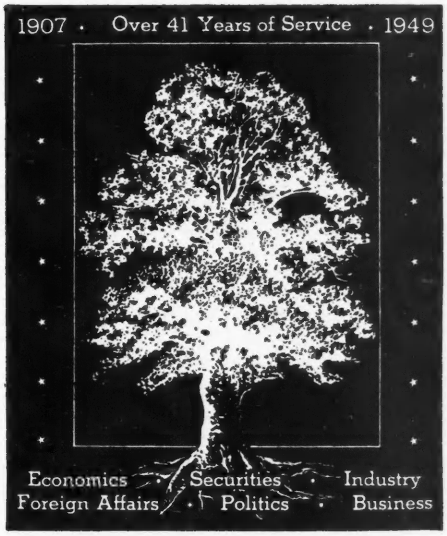
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor* ARTHUR G. GAINES, *Associate Editor*



The Trend of Events

BRANNAN'S BOMBSHELL . . . Long aware of mounting public dissatisfaction with its farm program, exorbitantly expensive yet far from properly effective, the Administration rather than continuing it at the risk of political disaster has come up with a brand new plan to supplant the old price parity system. When Secretary of Agriculture Brannan presented it to Congress, he remarked that what he had to propose "was not likely to startle anyone" and contained "no revolutionary ideas." When he had finished reading his statement to the stunned congressional audience, the plan was quickly dubbed "Brannan's bombshell," a revolutionary new farm subsidy program, widely termed a major step towards socialism.

This time the Administration promised high prices to the farmer and low prices to the housewife, perpetual prosperity for the one and cheap abundance for the other. But it would also bring the farmer close to the point of nationalization through imposition of the most complete set of governmental controls ever advocated in this country. Instead of supporting farm prices as under the present system, such support henceforth would apply only to non-perishable crops like wheat, corn, cotton. etc. Perishable farm commodities would be allowed to drop to free market levels, and the difference between these and calculated price support standards would be given the farmer in cash. As the main goal, the farmer is to be guaranteed a high income "in line with public interest." The plan, in fact, is designed to keep farm purchasing power near the highest level in history. For 1950, for instance, total farm income would be pegged at a minimum of 25% above the inflated 1939-48 average, or at over $26 billion.

Observers correctly comment that the plan is an astute political move which is bound to appeal to farmers as well as consumers who finally are promised lower prices. The farmers on second thought may however find it less palatable once they realize the implied extent of Government control over the entire farm economy. Much as they like high and assured incomes, farmers are rugged people and not apt to take kindly to virtual nationalization of their business. As usual, the taxpayer would have to shoulder the financial burden. The cost is anybody's guess but tentative price tags range from $5 billion to $10 billion annually. Low bracket taxpayers would not suffer too much if at all, since a goodly part of their share would probably be offset by lower food costs. It's the medium and high income brackets, and the corporations, to whom the main burden of sustaining farm prosperity at recent inflationary peak levels would principally be shifted.

But apart from the terrific cost, there is the question of morality, the question of how far people apparently have succumbed to the idea that they have a vested right to raid the Treasury for whatever they can get. As Senator Aiken pointed out, if the Brannan proposal is accepted, the nation cannot "with clear conscience deny the same guarantee of satisfactory income to other groups of our population." Surely, if the plan goes through, organized

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "Whats' Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's market, don't miss it!

labor will be quick in pushing their own pet ideas of a guaranteed annual income for the worker, and with as much right as the farmers have to expect the nation to support their income. Class interests will supplant the national interest; Government by lobby will take the place of Government of and for the people as a whole. It's a grim vista, yet the Administration considers the new farm plan a fair deal for everybody.

On sober consideration, the farmer may not be so sure that he will really be the gainer. He must realize that every time he gets Government money, he signs a receipt on which is printed an order to relinquish a part of his liberty. Whether he be a good farmer or an inefficient farmer, the Government will tell him just how much to plant, to produce, to harvest and to market, and where and when to market. In return for guaranteed prices that in most cases would actually be higher than the present support prices, he will have the privilege of joining the first nationalized group of workers in this country. Farmers and Congress ought to reject this wondrous pill obviously compounded in the pharmacy of pure politics.

DEVALUATION ABROAD? . . . Devaluation rumors, a hardy perennial, are again in full bloom but this time, it appears, they are not without some substance. Continued nervousness springing from such rumors has pushed down the price for "forward sterling" though bankers here are inclined to scoff at talk of early sterling devaluation. Other informants are less sure about it. Some think it a definite possibility within two or three months. Others anticipate a revision of most European exchange rates, involving a depreciation of several in relation to the dollar, before the year is out.

Readjustment of European currencies to more realistic levels, once monetary and financial stabilization has been achieved, would be a logical step—and such stabilization is well on its way. Stabilization in turn will make for greater incentive of foreign producers to export, particularly to the U. S. in order to obtain precious dollars, but they will find it difficult to sell to this country unless their prices are lower.

There is growing conviction abroad that devaluation will be the easiest way out. This thought is considerably strengthened by the price downtrend in this country which makes for increased competition with imported goods. The British particularly are concerned about their exports to the U. S. on which so much depends, and they have already felt the impact of lower U. S. prices. Not only have British imports harder sledding but there is concern lest in the event of a slump here, we shall push our own exports to take up any domestic slack. If so, keener competition in world markets is bound to be troublesome.

In such an event, the contention that it would be premature to devalue sterling or any other currency until more normal world trade conditions make it easier to appraise their "true value," presumably could quickly yield to the element of necessity, the need to push exports for all it is worth, particularly to this country. Price trends in our country, in other words, will have a transcendent influence on currency decisions abroad. It is this fact that doubtless underlies current devaluation rumors and endows them with a measure of logic that is difficult to ignore.

Not only British, but French, Dutch and Swedish products could be made cheaper, and easier to export, in the same way. Talk of Swedish currency devaluation has been increasing of late. The French have devalued the franc twice since the war's end but each time its effect was obviated by progressive internal inflation. Only recently, however, a cut in the price of blocked French francs was undertaken to promote exports, and banking circles hint that more can be expected. The trend is toward a single uniform franc rate at lower than current levels.

If and when final currency decisions are made, it is up to the International Monetary Fund to mesh the devaluations so that no currency will be too far out of line. Definite action may take some time, but clearly the stage is now being set. When it comes, another important milestone towards European and world recovery will have been passed.

"BOLD NEW PROGRAM". . .Though the public since its first announcement has heard little more about President Truman's "bold new program" to improve the world's underdeveloped areas, a good deal of activity has been going on to develop it. But official thinking has apparently shifted away from the thought that the dominant element in the plan would be broader technical assistance to the backward areas. More recently, technical assistance and private investments are considered of parallel importance in all planning. And the thought is crystallizing that the real long range burden should have to be borne chiefly by private capital because the greatest potential expansion lies in the outflow of American capital.

The biggest effort thus can ultimately be expected toward stimulating private capital to do more. According to a recent study by the National Association of Manufacturers of capital export potentialities, an estimated $2 billion of private American funds could annually be invested abroad after 1952 when Marshall Plan aid is expected to end. However there is a variety of obstacles. Business men are reluctant to invest abroad because of legal restrictions, excessive taxation, discrimination or fear of expropriation. It would take removal of all or most of these threats and handicaps to insure a free flow of U. S. A. capital to foreign areas. Also, many foreign countries object to the idea that their natural resources and labor should be exploited for foreign profit, and there is some fear that foreign capital might influence their internal affairs in unwanted degree.

What's needed, then, to implement the new program is not only creation of a favorable climate for private American investment abroad, but steps to clear away misconceptions of both would-be borrowers and lenders. This will not be an easy task but it's worth attempting.

Properly undertaken, the importance of the program as an economic stabilizer, both here and abroad, once Marshall Plan aid ends should not be underrated. Equally if not more important is the broader goal that aims at enough social progress so that people won't find the economic appeal of communism attractive. If the people of the world realize that their future lies beside us rather than against us, the cost of the program will be a small price to pay. And that price may be fully offset by economic advantages accruing to us. This may be an optimistic view but, we believe, not outside of the realm of practical thinking.

As I See It!

BY ROBERT GUISE

WE CANNOT HAVE OUR CAKE AND EAT IT!

Sir Stafford Cripps, British Chanceller of the Exchequer, in submitting his latest super-austerity budget made it plain to the British people that the price of a full-blown welfare state comes extremely high. This must have been a great disappointment to the working class particularly who always thought that they could enjoy these benefits largely at the expense of the rich. But the rich had already been soaked up to the hilt; the new budget was definitely a soak - the - worker budget. The workers, too, have been presented their bill. This explains why the harsh realities of the new budget came as a grim blow not only to the British people but also to the Laborites worried about the elections and busy preparing a general campaign on the welfare state design. Seeing how high the cost, they must now be wondering just how effective such an appeal will be.

"A GIANT WITH CLAY FEET"

Apologies to Justus in The Minneapolis Star

In his budget message, Sir Stafford has driven home the stern news of higher food prices and rigid maintenance of high taxation which at present absorbs 40% of the British national income. The Labor Government had promised the people many advantages and gifts. A number of industries had been nationalized but the expected profits to the nation have proved illusionary. Food has been subsidized but the taxpayers have to bear the cost. Medical care and other social services have been offered but their cost, too, comes high. Says Sir Stafford: "You cannot have false teeth and cheap subsidized food as well. When I hear people speaking of reducing taxation and at the same time see the cost of social services rising rapidly, very often in response to the demands of these same people, I wonder whether they appreciate to the full the old adage: We cannot have our cake and eat it."

Perhaps the British people will still want their socialized state though it should now be clear to them that they cannot have it without "tears and taxes." Quite possibly, realization of this unpleasant truth will prove a boomerang for the Labor Party in the 1950 elections. The idea is spreading that — "either the Government has to change its ideas or Britain has to change its Government." Given an opportunity of registering their opinion at the polls on the day after Sir Stafford introduced his austerity budget, the residents of London took from the Labor Party control of the London County Council which it has held since 1935. Defeated Laborites were quick to blame their downfall on the budget in which the Chanceller of the Exchequer had done no more than applied his theory that if the country wants socialistic services, it must foot the bill for them. While the Labor Party won back control of the London Council through a technicality, the returns must certainly strengthen the voice of the conservatives in protesting against further socialistic experimentation which is putting such a terrific load on the British economy.

As to the latter, the Economist makes no bones about it when it pointed out in a recent issue that "The price of Government in Great Britain today is 40% of the total of all incomes . . . the long continuance of such taxation will ruin the country . . . a state that taxes away 40% of all incomes, and much more of the incomes of the successful and energetic, is killing the motive power that keeps it alive . . . this is a hideous prospect that faces the British people . . . if such taxation remains, it will be impossible for the community to create enough savings to maintain its capital."

"The lamentable thing is that it is very difficult, to the point of impossibility, to see how we can escape from the vise in which we are caught . . . there is no apparent avenue of escape from the dilemma . . . unless the price of government is reduced, the British economy will gradually strangle itself . . . but there is no prospect at present visible of any substantial reduction in the price of government."

These are frank and disquieting words though the Economist disavows any desire to be alarmist or even more pessimistic (*Please turn to page* 107)

Market Projecting Business Prospects

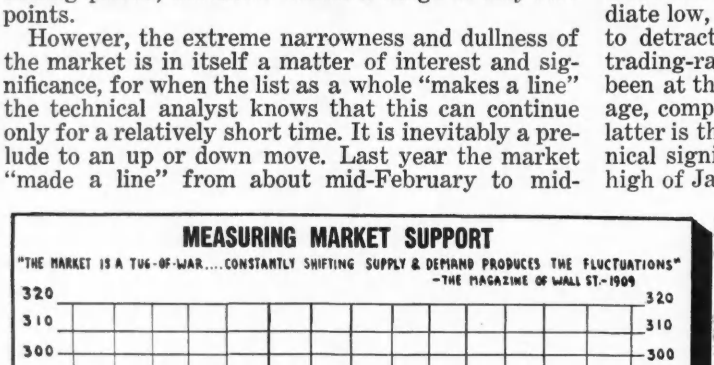
Selectivity remains the dominant feature of the market, with "the averages" almost motionless so far in April. A more general move is likely before long. We think the chances are better than even that it will be upward, though perhaps of moderate scope for the time being. Our selective, middle-road policy is unchanged.

By A. T. MILLER

If you speak of the market in terms of a general index it is accurate to say that it is virtually standing still. There has been barely a wiggle in our composite weekly index of 320 stocks in recent weeks, as will be seen by a glance at the graphs on the opposite page. Charted also are the normally volatile Dow industrial and rail averages, and you will see that the same is true of them. So far in April, with the month a little more than half over, the former has "moved" within a range of only 1.03 points, on the basis of daily closing prices; the latter within a range of only 1.07 points.

However, the extreme narrowness and dullness of the market is in itself a matter of interest and significance, for when the list as a whole "makes a line" the technical analyst knows that this can continue only for a relatively short time. It is inevitably a prelude to an up or down move. Last year the market "made a line" from about mid-February to mid-March, following an intermediate downswing of about 15% in our broad weekly index. From that flat and slow bottom came the largest rise seen since the culmination of the great 1942-1946 bull market in the summer of 1946.

The circumstances now are somewhat different, technically and otherwise. In the first place the decline to the low of late February this year was about a third less in scope than the comparable downswing in the forepart of 1948. In the second place, the virtual stalemate has developed not around an intermediate low, as was so a year ago, but enough above it to detract something from the rally potential in a trading-range market. Thus, the recent "line" has been at the level 176-177 in the daily industrial average, compared with February low of about 170. The latter is the nearest support level of appreciable technical significance, and not a great deal at that. The high of January this year is the nearest supply level which could mean anything, and also not a great deal. Because they have now been maintained for so long, and tested several times, the highs and lows of the whole trading-range period of the last two years or so are the only decisive reference points.

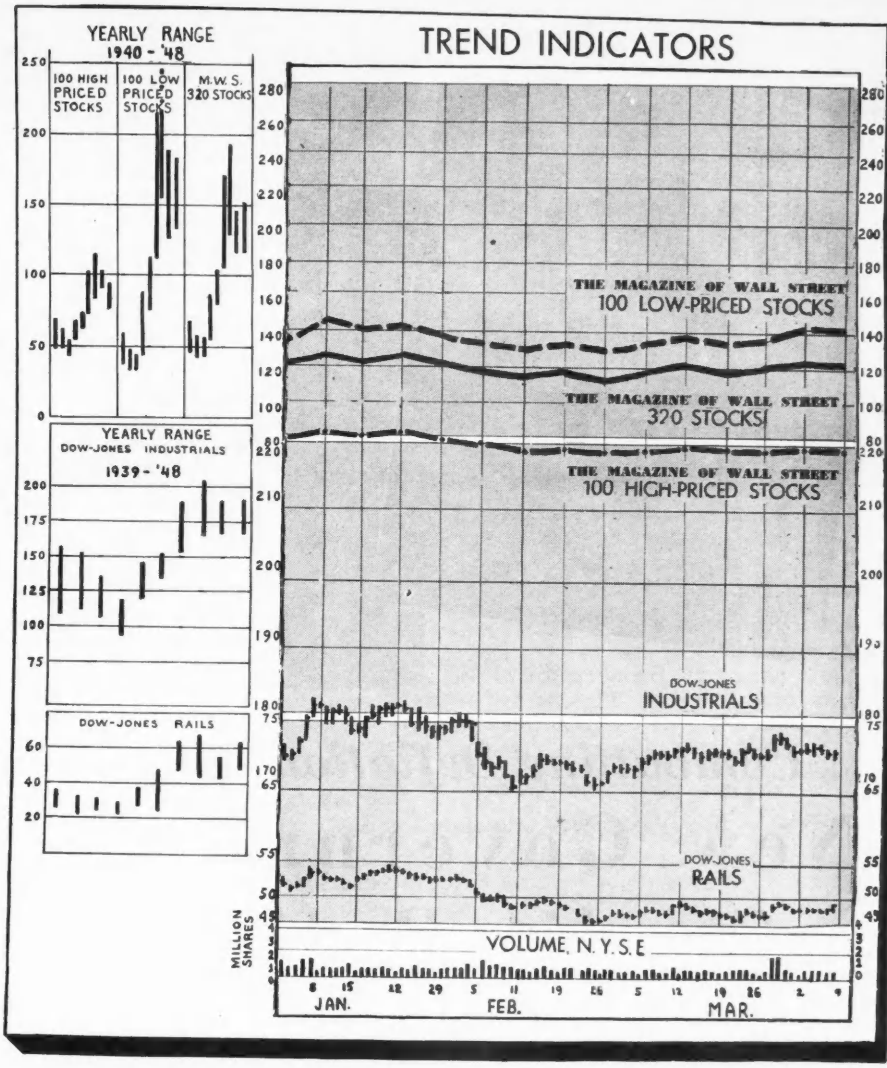


Sustained Trend Unlikely

These points in our broad index are the 1947 low of 111.5 and the 1948 high of 151.9. Until something happens to induce a broad liquidating urge of true bear-market force on the one hand, or a bull market on the other, selling pressure will dwindle in the lower reaches of the trading range cited; and demand will peter out in the upper area. For those who follow the daily average, this means that the market is unlikely to work down through the 170-163 zone on such evidence of deflationary economic readjustment as has developed to date or is likely to develop over at least the medium term. And it means that rallies must find the going progressively harder not much above the January high, for within the range 182-193 an uncommonly large number of substantial and minor upswings have topped out since the autumn of 1946.

With average stock prices a fair dis

tance away from a test point of importance either way, nothing very exciting seems likely to happen over the weeks just ahead unless caused by some unpredictable happenstance. The break-away from the present "line" might be up or down for the general price index, yet merely convert a stalemate into an upside or downside test which would have to run quite a time and a pretty fair distance to be of more than temporary investment interest.



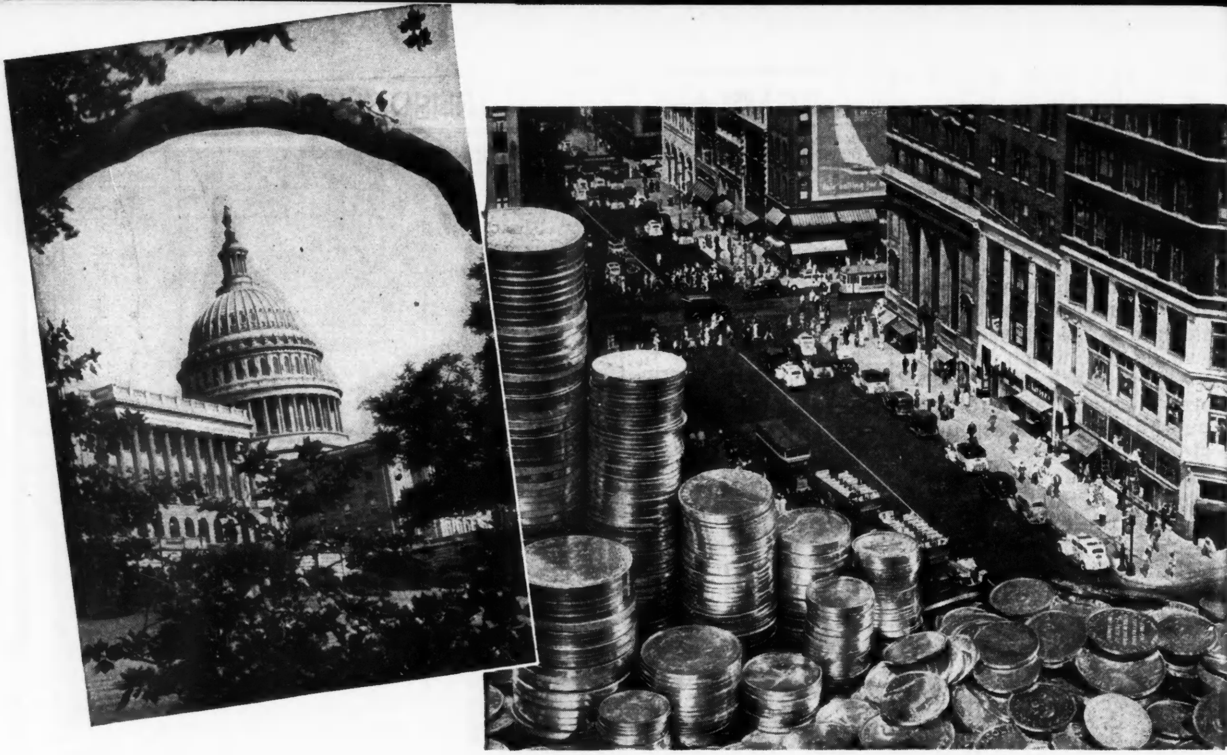
We believe that the chances are better than even that the move will be upward. The fact that the market as a whole has shown such fortitude in the face of conclusive evidence that the inflationary boom is over suggests that it would take more disturbing economic conditions than have yet developed to unsettle it importantly. That is a possibility for some later time in the year and will have to be watched, but there are too many imponderables involved—especially in the realm of Government policy and action and foreign developments—to make a judgment feasible at the present time. Moreover, we see no necessity for even trying to deal with this question now. We are in a period, likely to continue for a while, in which there is some support from seasonal influences; and it makes us doubt that news about business and commodity prices will have any more effective shock element in it, so far as concerns general investment sentiment, than has been so for some weeks heretofore.

If this is correct the rally from the February low could be extended in fair degree merely because things are not as bad as they might be, because the technical position is sound, because earnings as a rule are still at high levels compared to prevailing stock prices, because average dividend yields are generous, and because the market has heretofore discounted more recession than is probable for at least some time ahead.

Selectivity More and More Evident

Meanwhile, with "the market" doing nothing, many individual stocks are doing plenty; for selectivity is the most pronounced feature, and there is every reason to suppose that this will continue to be so. For example, in a recent typical session 27 common stocks made new 1949 highs, while 23 made new 1949 lows. Throughout the past fortnight, indeed, new highs and new lows for the year have been fairly closely balanced in number in most sessions. We continue to believe that in all probability a goodly number of individual issues have seen their lows for an indefinite time to come. (A more detailed comment on the market's selectivity, and some of the investment implications thereof, will be found in "For Profit and Income" on page 82.)

Gradual readjustment in business continues, but is still in considerable degree a matter of rotating correction, industry by industry. As has been aptly said, a series of moderate shocks is much less damaging than one big earthquake. It is an element of strength in the general situation that activity peaks in the industries have been widely spaced in timing, and that in a number of them deflationary adjustments are far advanced, if not completed, without having had any great effect on total production and national income. This is highlighted by noting the variously timed peaks of the 17 major sub-indexes making up the Federal Reserve Board's over-all production index. The latter reached its peak in the fourth quarter of last year at 195 and by March had declined to 185 or by a little over 5%. But the leather products index reached its peak as early as the second quarter of 1946. The indexes of stone, (*Please turn to page* 110)



Combatting Deflation with
New Government Credit Policy

By J. S. WILLIAMS

That deflation, not inflation, is at last recognized officially as the dominant force in the economy is clearly evident from recent moves illustrating this new viewpoint. And with deflation gathering momentum, it is a reasonable assumption that anti-deflation policies henceforth will get more and more thought and attention. After years of rampant inflation, this marks an important turning point, and a development welcomed on all sides. Still no one in authority likes to see deflation go too far, or move too fast. That could prove highly unsettling. Hence the prospect that policies will be reversed gradually in adaptation to prevailing business conditions.

Successive relaxation of consumer credit curbs and of margin requirements for trading in securities by the Federal Reserve Board would seem to point to other steps that may be taken in unwinding the anti-inflation machinery built-up during the war and the immediate postwar period. If business should really move substantially lower, there is little doubt that consumer credit will be further eased, even that bank reserve requirements will be modified after having been raised only last September. On either point, it is well to remember that unless extended by Congress, the FRB's power to regulate consumer credit will soon expire, and the Board's right to impose additional reserve requirements will also come to an end on June 30. Negative action by Congress on the pending bill extending these powers thus could take the decision out of the Board's hands regardless of what the latter thinks may be expedient at this time.

Understandably, central banking authorities feel that whether needed or not, the economy should not be run by lapse of statutory power but by positive action, hence they would like the Government to retain at least standby authority. Private quarters differ. Some would like to see consumer credit control disappear entirely from the business scene. Others are inclined to grant the Government power to exercise some measure of control over instalment credit lest an unwanted expansion should occur at a time when it could be detrimental. The latter danger is presently considered slim by most observers. Should recession continue or grow worse, demand for stimulating action in the credit field would certainly be insistent though it is recognized that credit controls and other governmental measures can be more effective in stemming undesirable expansion than in stimulating business activity when it is headed downward.

Redoubles Efforts for Extension of Controls

At any rate, the Administration is redoubling its drive to have these controls extended before expiration. As to consumer credit, it feels that the time for a complete letting down of the bars is not yet, and it certainly would like to preserve at least standby authority. As to reserve requirements, the Board faces a dilemma, should Congress refuse to extend its powers. The boost ordered last September

would then expire, releasing automatically some $2 billion bank reserves providing the basis for as much as $12 billion of additional lending power to the banks. The Board, it is known, would like to go slow on reserve requirements. One reason is that a rush of moves to combat deflation might give the impression of greater official concern about business than presently appears warranted. Because of the psychological elements in the present situation, even some bankers are emphatically opposed to hasty action, much as they would benefit in added earning assets. Others are strongly in favor of it.

No Early Change in Reserve Requirements

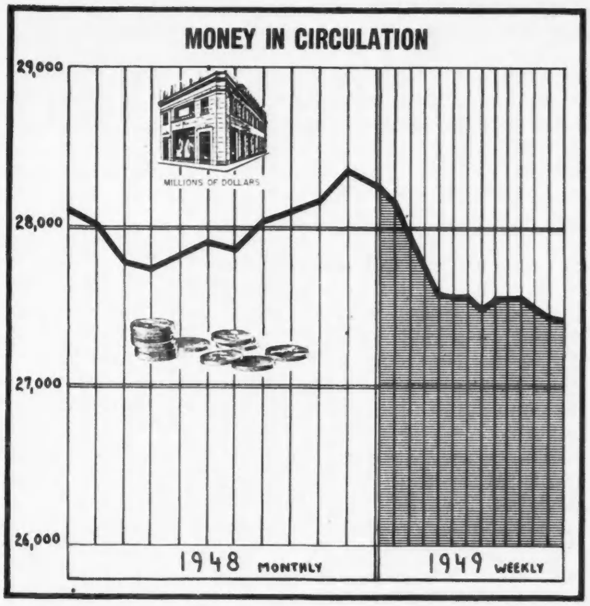
Barring a substantial deepening of the recession, there is probably little prospect of immediate action though absolute predictions under current conditions are always risky. It is well recognized by fiscal managers that lower reserve requirements do not necessarily mean an immediate higher loan volume for constructive purposes. The immediate effect could be no more than an enlarging of available funds for the purchase of short term Government securities by the banks, just as they sold securities when requirements were raised.

Still and all, bank credit has become an issue getting considerable attention by the FRB, one that involves more delicate problems than moves in the consumer credit or stock margin field. The latter are not such that they would logically precede a cut in bank reserves under existing conditions. Consumer credit has been eased to revive flagging demand for consumer durables. Stock margins have been lowered to stimulate the stock market and the flow of venture capital, or investment capital, into productive enterprise. When it comes to the question of bank credit, the fact stands out that there is no credit stringency but rather an unwillingness to utilize already available credit. This is amply evident when one looks at what happened to business loans since the turn of the year.

Commercial, industrial and agricultural loans of Federal Reserve member banks reached a high of $15.6 billion by mid-December last year. As of April 6, 1949, the figure had dropped to $14.6, a decline of fully one billion within the short span of four months. True, part of this decline was seasonal, but by far the smaller part. A year ago, for example, with prices rising and everybody boosting inventories, business loans * from December to March showed a seasonal drop of only $250 million. This year, with the trend reversed, loans dropped $650 million during the same period.

Sharp Fall in Business Loans

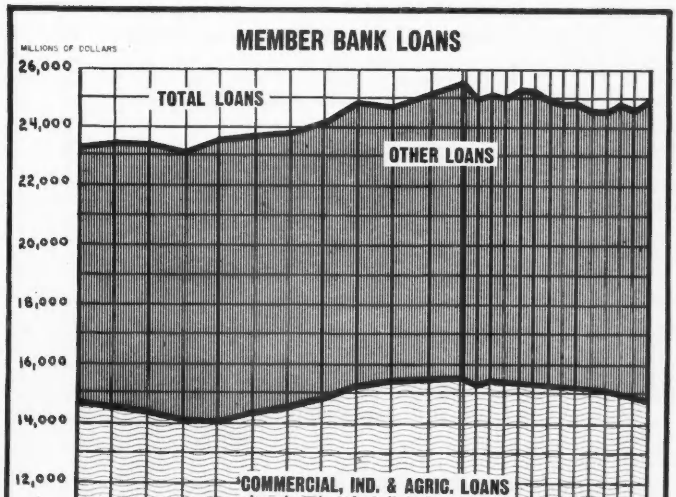
During the week ended April 6 alone, member bank business loans dropped $277 million, greatest drop in history for a single week and the twelfth consecutive week in which borrowings declined. Chief factor, it is believed, has been widening caution in adding to inventories and the desire to pay off loans by liquidating inventories — in anticipation of possible further price declines. The twelve-week drop in loans makes the current downtrend the sharpest, deepest and longest, with the seasonal factor of only



minor significance. Many had expected the decline to taper off at the end of the first quarter, and shortly thereafter to begin to work its way up again. Failure to do so reflects not only continuation of extreme business caution based on the sluggishness of the seasonal business pick-up, but also on the belief that price adjustment is by no means completed.

Money Circulation, Consumer Credit — Down

Accompanying this shrinkage in credit has been a sizable drop in money in circulation, from the December high of $28.4 billion to $27.5 billion recently, and a sliding off in outstanding consumer credit from its postwar peak of $15.9 billion, developments that have colored, and helped bring about, recessive trends to date. Hence the new emphasis on measures aimed at heading off an unwanted



degree of deflation, or an undesirable speed in the adjustment process.

Here is what we may expect beyond the steps already taken and previously discussed. There is a good probability of further easing of consumer credit curbs unless Congress decides to let the FRB powers lapse by mid-year. At this juncture, the latter seems the lesser likelihood but Congress may well exact further relaxation of controls as the price for extending the Board's authority.

Other Likely Moves

Interest rates will be kept low. The Treasury recently decided not to raise its one-year rate from 1¼% to 1⅜% as originally intended to tighten credit some more. To the extent that this plan may be considered abandoned, it marks a distinct policy reversal.

The money supply generally will be kept abundant rather than tightened by Government action such as Treasury operations. There is likely to be less emphasis on debt retirement, and deficit financing, a distinct prospect in the coming fiscal year, also tends to add to money supply. Even in the field of taxation we may expect a less rigid approach with the prospect that only a part, if any, of the new tax money demanded by the President will be approved. Additionally there are signs that the Reconstruction Finance Company may henceforth take a more active part in direct lending to business in cases where other lenders are not available.

In short, anti-deflation action — tantamount to anti-recession action — will center on measures likely to attract investment — by easier credit terms and easier money, but there will also be direct counter-measures in the form of Federal lending and spending.

How FRB Can Bolster Bank Reserves

If in the foregoing discussion, we have excluded as an immediate prospect a direct move to expand bank credit by lowering bank reserve requirements, this doesn't mean that nothing will be done along such lines. Short of cutting reserve requirements, the FRB has other means at its disposal. An idea of what it may do first was given recently in a talk by Federal Reserve Governor Szymczak in which he listed a possibly significant order of actions to cushion the recession. He said that the Federal System "has virtually unlimited means of supplying the market with additional reserves through purchases of Government securities. The Reserve Banks at present hold $23 billion of gold certificate reserves and on the basis of existing legal gold reserve requirements, the system could more than double its outstanding note and deposit liabilities. Moreover, advances can now be made on any assets of member banks that are acceptable to the Reserve Banks as security."

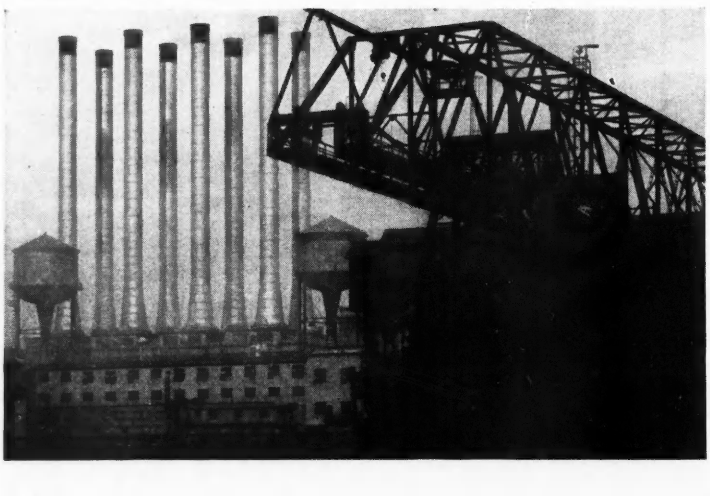
"Further," Mr. Szymczak added, "when other lenders are not available, the system is empowered to make direct loans to business firms for working capital purposes. Finally, the system can always contribute to monetary ease generally by a reduction in reserve requirements and in special areas through relaxing instalment credit and margin requirements."

Whether right or wrong, some observers attribute significance to the fact that reduction of reserve requirements was mentioned last as possible means of credit expansion, apart from the special cases of consumer credit and margin requirements. This observation agrees with the impression prevailing elsewhere that the FRB will at least "linger" over the problem of cutting reserve requirements at this particular juncture.

Board Disclaims Immediate Need

So far it has disclaimed any evident need now or in the "foreseeable future" for such a drastic economic "shot in the arm." It is a contention that is difficult to argue against, if only because there is no pressure on banks to make loans as evidenced by the steady decline in business borrowings. The demand for business loans is likely to remain slack until the heavy inventories in many lines are worked off. If so, cutting reserve requirements will have little effect at the moment, just as relaxation of consumer credit will fall short of its desired goal, should deflation gather momentum.

Lowering reserve needs, however, would tend to soften short-term interest rates because much of the released reserves would likely go into short-term governments. This might be desirable at a time when deflation threatens, but it probably wouldn't be too important an element in the overall equation. Banks of course can make a valid case, from their own standpoint, why some of their frozen reserves should be released to augment their earning assets. Cancellation of the latest advance in reserve requirements would only eliminate the third of three successive increases ordered in the recent past, and with production, prices and profits headed downward, there is little justification for maintenance of this drastic raise, originally imposed as a powerful inflation antidote. Doubtless also there is validity in the contention that a sound credit control policy must be flexible and adjusted without delay to changing economic conditions lest any delay invites too severe deflation. The trend of economic conditions will be the main determinant of how far the authorities are likely to go in making credit available if there be need (*Please turn to page* 105)



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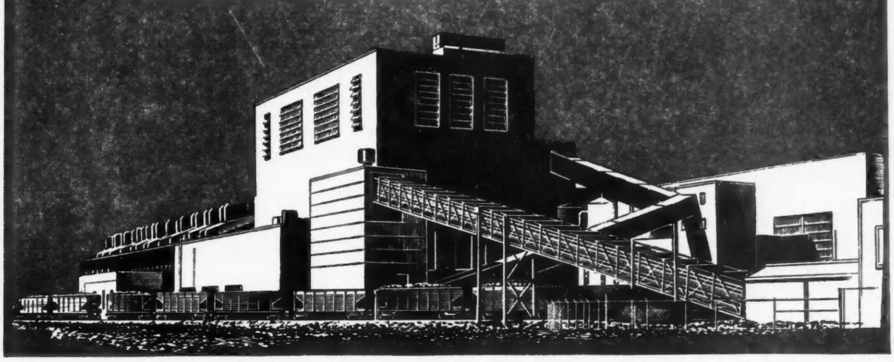
WHAT......

First Quarter Reports Indicate

FOR 1949 EARNINGS, DIVIDENDS AND SECURITY PRICES



By WARD GATES

The backswing of the economic pendulum assumed an accelerated pace immediately after the close of 1948, the most prosperous year on record. Expanded production characteristic of the postwar boom in most industries met with progressive evidence of an approaching balance with demand last year, but the abruptness with which buyers at every level seemed to withdraw from the market as 1949 opened had an abnormal impact on sales of numerous corporations. For this reason, many first quarter earnings reports are bound to be disappointing to shareholders although exceptions are numerous.

The usual divergence in interim results is certain to be far more notable than for many years past, the more stable ones reflecting in part the size and character of backlogs permitting sizable production schedules, along with a still satisfactory inflow of new orders. But of more consequence is the varying degree of efficiency in reducing operating costs to a level commensurate with shrinking volume. Under current conditions, margins of most concerns are being squeezed by competitively induced price concessions combined with smaller unit deliveries. Thus the test of operating as profitably as in the recent sellers' market has become severe for a number of concerns, for costs are still rigid in many instances. While this could be expected to affect particularly marginal enterprises, for the time being at least it also constitutes a problem for numerous concerns with well proven reputation for operating efficiency.

The crop of first quarter reports coming to hand is still too scanty to afford a conclusive picture. But earnings for fiscal quarters ended in January or February, reported sales trends in recent months together with hints from numerous managements combine to furnish clues as to the widespread readjustments now under way. Where volume of a given industrial group has declined substantially, or even moderately for that matter, it can be taken for granted that quarterly earnings of most of its components have been adversely affected, though strong trade standing or diversification may offset this factor with some, or excellent cost controls alleviate the impact.

We caution our readers not to become unduly pessimistic when noting some sharp drops in earnings that numerous strong concerns are certain to report for the first quarter. Weakness in the price structure of either raw materials or finished goods, especially on the heels of a long sustained inflationary period, inevitably fans suspicion that continued cuts are in store. This always tends to drive the public, retail and wholesale buyers and the purchasing departments of many manufacturers into hiding until the air clears. Thus mass psychology rather than actually diminishing demand has accounted for much of the sudden lag in order placements characteristic of the first quarter.

How Long Will It Last?

As yet no one can authoritatively assert just when and to what extent this period of hesitation will exhaust itself. Developments in forthcoming quarters must be awaited before the picture becomes better clarified. On the other hand, a deferred demand is being reconstructed that is very likely to become expressive when cautious distributors find their inventories evaporating and insufficient to cope with retail demand. What complicates this situation, though, is an increasing pressure of distress merchandise from marginal manufacturers forced to liquidate burdensome inventories regardless of cost or price factors. These bargain opportunities create the illusion that all prices must be coming down, thus encouraging deferred buying policies.

Quarterly Sales and Earnings—Latest Quarter Ending March 31, 1949

	1948 Quarterly Sales ($ million)				1949	1948 Quarterly Net Per Share				1949
	March	June	Sept.	Dec.	March	March	June	Sept.	Dec.	March
Alpha Portland Cement	$2.4	$5.2	$6.4	$5.3	$3.0	$3.18 k	$3.48 k	$3.98 k	$4.66 k	$5.04 k
Barker Bros.	7.1	8.1	8.2	9.3	6.6	1.13	1.27	1.29	1.39	.60
Bendix Home Appliances	17.4	12.4	10.7	9.6	4.7	1.57	.85	1.13	.23	.06
Decca Records	7.8	4.7	4.6	6.7	6.0	.50	.05	.16	.39	.35 E
Ekco Products	8.2	6.7	7.2	8.7	7.1	.82	.50	.56	1.05	......
Falstaff Brewing	11.1	13.3	16.0	13.8	......	.78	1.07	1.42	1.48	1.27
Federal Mining & Smelting	2.3	2.5	2.5	3.3	......	1.66	2.14	2.55	3.15	3.99
Gleaner Harvester	2.9	4.2	2.5	2.4	3.3	1.70	2.83	1.26	1.37	1.90
General Bronze	2.0	2.5	2.4	2.6	2.0	.32	.90	.45	1.10	.35
Loews, Inc.	59.2	43.4	44.2	38.6 b	......	.49 c	.17	def.10	.20 b	.60 c
Mathieson Chemical	7.3	8.1	9.2	8.7	......	.92	1.24	1.63	1.82	1.48
Martin, Glenn L.	10.9	15.7	15.2	30.4	12.3	......	def.63 e	......	def14.10 e	......
New York Air Brake	4.4	4.6	4.8	4.9	......	1.59	1.31	2.11	1.34	2.23
Peoples Drug Stores	11.0	11.3	11.7	13.8	......	.69	.77	.77	1.78	.60
Plough, Inc.	3.4	3.5	3.7	4.6	3.9	.22	.39	.28	.23	.30
Rayonier, Inc.	15.4	16.1	15.8	16.1	......	2.16	2.25	2.35	2.33	1.71
St. Regis Paper	40.4	43.5	39.5	39.3	34.9 E	.83	.78	.60	.50	.39 E
Transue & Williams	2.0	1.8	1.7	2.0	......	.60	.60	.60	2.13	.60
Union Bag & Paper	19.4	19.1	18.5	19.6	......	2.46	2.44	2.21	2.06	1.50
Woodward Iron	5.3	5.1	6.5	6.7	......	1.50	1.43	2.16	2.26	2.38

E—Estimated.
b—12 weeks ended November 25.
c—16 weeks ended March 17.
e—Semi-annual earnings.
k—Successive 12 months' earnings ending in each respective period.

The hope, indeed the general expectation is that high level employment in basic industries such as steel, oil, automotive, construction and among producers of military equipment, along with implementation of ERP, will level the national income on a plateau that will automatically subdue the current wave of seeming price resistance within a reasonable interval. There is of course a pretty definite limit to price reductions made possible by huge sums spent for modernization and by the declining price trend of essential materials, acting as an offset to firm wage rates, rising promotional expenses and expanded overhead. In due course, the acceptance of prices well above prewar will be widespread and relatively permanent.

Competition and Price Concessions

Meanwhile, however, competition in most lines has been intensified to overcome the handicap of falling volume, or to ward off a prospective decline. This has created an abnormal situation where the threat of heavy inventory losses has induced price concessions in many fields at a time when sales expenses have been rising, thus pinching margins rather seriously. The most efficient managements require time to reduce operating costs to bring them more in line with lower volume; some exhibit great flexibility but others require many months. Thus some companies last year reported an upturn in net earnings despite reduced sales; and after more than a year of hard going some have finally seemed to master their problems by reporting a moderate improvement in earnings in recent months. On the other hand, lower earnings were reported by many firms that experienced higher sales last year; some of these probably fared poorly in the first quarter and may still have a struggle on their hands for some time

In studying this year's roster of first quarter reports, allowances must be made for the return of most industries to a seasonal basis, now that supply and demand have become balanced. In other words, some reduction in volume during the March quarter is normal, and likely to be followed by a usual spring uptrend, especially as Easter this year is late. A straw in the wind is an indication that department store sales in April are comparing favorably with the same month a year earlier, though during February and March they were sharply off. Virtually all of the big chain stores experienced lower sales, and probably lower earnings, in the first quarter but for the same reason probably will report some improvement in the current month. Volume of Sears Roebuck, for example, was reduced 10.9% and that of Montgomery Ward 13.8%, in both cases for 2 months ended March 31, compared with the same 1948 period. Sales of F. W. Woolworth dipped 6.7% in three months against a year ago. Earnings of most distributors seem certain to be adversely affected by first quarter clearance sales in the rush to clear shelves before an anticipated decline in wholesale prices. At least one exception in this general distributing group, though, is Jewel Tea Company, reporting an 11.6% advance in sales for three months ended March 26.

Varied Experience in Manufacturing

It is among manufacturers that the greatest divergence in first quarter earnings is developing. Hesitation in buying at the consumer level compounds the reluctance of retail and wholesale purchasing departments to place forward orders with

producers, with the result that factory inventories quickly mount. This has always been true of the textile industry, for instance, which is reported to now have several hundred million dollars of finished goods on hand that are moving out slowly and often at a sacrifice. Several months are likely to elapse before readjustments are complete in this field and production attuned to what may be considered more normal demand. This applies not only to cotton and woolen mills but to producers of rayon as well. In the March quarter, tonnage sales by Rayonier were lower by 16% than in 1948, to cite one case, and the company's margins were further pinched by price concessions, net for the quarter dipping to $1.71 per share from $2.16 in the first three months of 1948.

Outlook for Oil Companies

Most of the major oil companies are expected to report first quarter earnings reduced by 10% to 25% compared with the same period last year. Comparable 1948 earnings, however, were among the highest on record, and comparisons with prewar will still be highly satisfactory. Accountable for the prospective poorer showing in the main is the reduced production allowable of crude oil ordered by the state of Texas. Preliminary estimates include first quarter earnings of Texas Gulf as around 75 cents per share versus $1.06 last year in the same span. Sales of Standard Oil of Ohio held up well, but higher costs probably lowered earnings somewhat. Richfield Oil, in contrast, may report earnings up about 25% because of increased production, all outside of Texas.

Reports of two large producers of paper products indicate that this industry is undergoing readjustments to more normal operations. St. Regis Paper Company's volume for the first quarter was $34.9 million, down $4.3 million from a year earlier, while net earnings of $2.2 million compared with $2.8 in the December quarter and $4.4 million in the March 1948 quarter. The management predicts improvement in the second half year due to depletion of pipelines. Union Bag & Paper Corporation reports a dip of 15% in first quarter sales, as well as a reduction in net earnings to $1.50 per share compared with $2.46 in the comparable 1948 period, a drop of 38% and thus pointing to the problem of a temporarily high breakeven point. Scott Paper Company, conversely, reports volume well up and net earnings for the first quarter of about $1.20 per share, up 58%.

The current oversupply of household equipment is well shown by the first quarter experience of Bendix Home Appliances, Inc. Considering a drastic drop in sales to $4.7 million from $17.3 million in the related 1948 span, it is extraordinary that earnings, however small, were reported. But the company managed to show a net of 6 cents per share versus $1.57 a year earlier. In another field, Decca Records has announced a quarterly sales drop of about 23%, but efficient cost controls held earnings to around 35 cents per share compared with 50 cents as of March, 1948. Volume of Ecko Products Company was lowered by 14% but the 30 cents quarterly dividend was probably covered. In the same 1948 quarter, net earnings of 82 cents per share were reported.

Prospect of Sustained Good Earnings

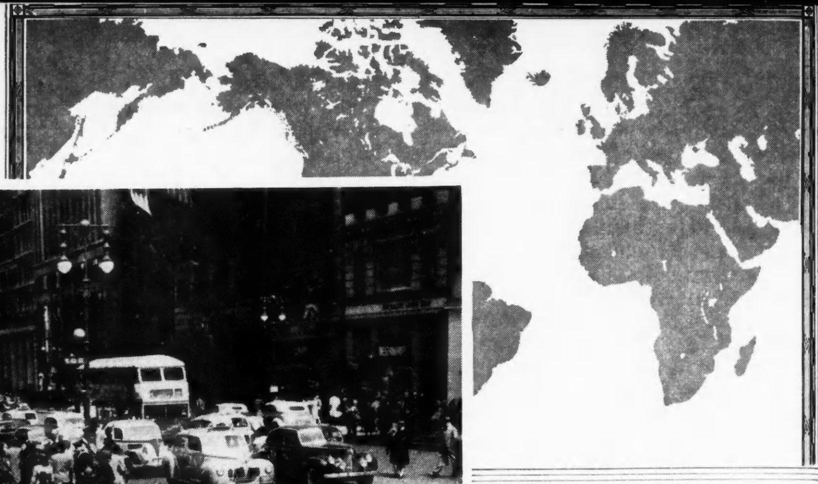
On the brighter side of the picture are a still larger proportion of concerns that thus far have evidently been holding their own in a most encouraging manner. While earnings of the automotive industry are not yet available, continued heavy output by some of the leading concerns seems sure to produce improved earnings. General Motors, for example, turned out 570,692 cars and trucks in the January-April 8 period, close to an all-time record. Hudsons' production was 50% higher than in the relative 1948 period. Reduced demand for steel by other manufacturers of durables is benefitting the automotive group and demand for cars promises capacity operations for the leaders throughout the current year. The trend towards lower car price, though, may offset the advantages of volume gains to some extent.

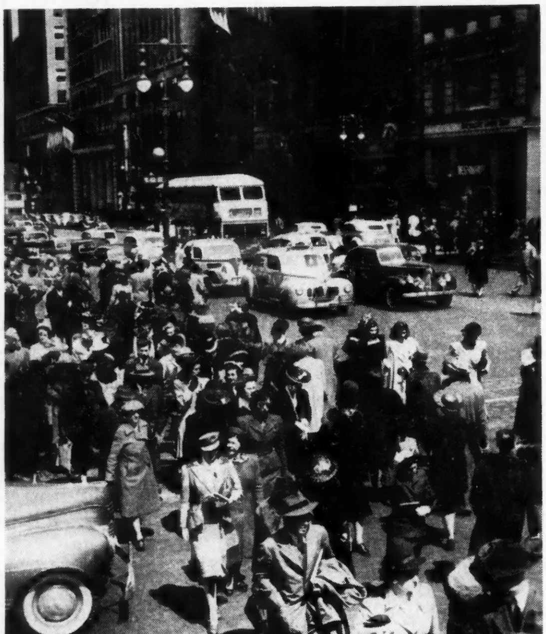
While first quarter earnings of the steel industry should hold up well, rather rapid easing of demand in many directions appears to have brought over-all supply in balance faster than had been expected. For this reason, the management of Pittsburgh Steel Company, in predicting satisfactory earnings during the first three months, cautions that a downtrend may develop in fol- (*Please turn to page* 98)

Quarterly Sales and Earnings—Latest Quarter Ending February 28, 1949

	1948 Quarterly Sales ($ million)				1949	1948 Quarterly Net Per Share				1949
	Feb.	May	Aug.	Nov.	Feb.	Feb.	May	Aug.	Nov.	Feb.
Consolidated-Vultee	$5.4	$10.8	$59.5	$36.6	$50.2	def$2.38	def$4.11	....	....	$.43
Duplan	9.1	10.2	10.4	10.8	9.5	1.21	1.10	$1.68	$2.62 b	.77
Eagle-Picher	17.7	18.2	19.4	24.4	19.5	.73	1.37	1.59	2.56	1.74
Gamewell Co.	3.1	3.3	3.0	3.2	3.2	.78	1.07	.73	.91	.89
Kelsey-Hayes Wheel "B"	17.1	17.2	19.0	19.7	20.1	1.22	1.08	1.82	2.09	2.32
Libby, McNeill & Libby	36.0	21.1	32.8	50.1	49.6	1.05 a	....	....	....	1.79 a
Murray Corp.	22.3	22.2	29.3	26.6	22.0	.61	def.01	1.66	1.17	1.20
National Mallinson Fabrics	6.4	4.7	4.5	5.5	4.8	1.48	1.23	.99	.54	def1.08
Wesson Oil & Snowdrift	65.0	57.7	40.9	54.4	45.1	1.90	2.09	....	.87	def.01
Wilson Jones	2.9	3.1	2.6	2.8	2.7	.79	.91	.29	.37	.51
Woodall Industries	4.6	5.1	5.3	5.5	5.2	.62	.59	.65	.93	.68

a—Full fiscal year earnings ending February 28. b—Six months' earnings.





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How a . . . . . .

High Standard of Living *Makes Our* Economy Vulnerable

By JOHN D. C. WELDON

Perhaps the most significant change on the material side of our life in recent decades has been the steady rise in our standard of living, a brilliant achievement of our modern technological system. But as our standards rose, we have seen them increasingly tied to high level consumer demand. Any slackening of the latter automatically tends to curtail the living standards of at least some part of our population. And the buying of goods beyond essential needs has become a prime requisite of general prosperity.

During the initial postwar years, during the scramble for goods to meet long pent-up needs, these basic facts were largely obscured. Now that most urgent deferred demands have been met, they are again coming to the fore. Again we are forced to recognize that without sustained demand, there can be no sustained or uniform prosperity; and that it is difficult if not impossible to sustain high level demand indefinitely when so much of our economic well-being depends on broad markets for consumer durable goods of prolonged utility.

There have been many explanations for the decline in consumer spending since the latter part of last year, and a good many valid reasons can be cited. Consumptive spending was reduced because large segments of our population were priced out of markets by the cost-of-living squeeze, or else spending was cut because of economic uncertainty or in anticipation of lower prices. But importantly also, spending was reduced because of progressive satisfaction of deferred demand. The public curtailed its buying not only in terms of dollar or physical volume but also in relation to its income. And with deferred demands largely met, price cuts naturally induced waiting for price stabilization at even lower levels.

How the public contracted its spending in relation to income is aptly illustrated by the following figures. Whereas in 1947, personal consumption expenditures constituted 94.9% of disposable personal income, the ratio last year dropped to 92.1%, less than the ratio of 95.5% in 1929 and 96.1 in 1939. Only in 1941 was there a lower ratio—89.5%, but in that year spending was already influenced by the approaching war which doubtless kept down consumer expenditures in many directions.

Last year, the decline was progressive. The spending ratio for the first quarter was 93.7% and by the fourth quarter had dropped to 90.8%; and as spending declined in the face of rising incomes, savings rose proportionately. Significantly, the change in sales trends was apparent in both durable and non-durable consumer goods but the decline in the former became far more pronounced as the year drew to a close. Thus while dollar sales of refrigerators, washing machines, vacuum cleaners and other major appliances in the third quarter of 1948 were running 10% higher than in the corresponding period a year ago, in the fourth quarter they fell about 25% behind 1947. The phenomenal increase in television set sales was virtually the only exception to this trend. Just how drastic the drop finally became is evident from Federal Reserve

Board figures for December covering 245 department stores which indicate that the sale of household appliances last December dropped 37% behind a year earlier, as against a decline of 30% in November and 28% in October. Even prior to that, the year-to-year position showed steady deterioration; whereas in December 1947, sales showed a rise of 18% over a year earlier, the margin of increase by June 1948 has narrowed to 11%.

The Return to a "Current" Basis

The combined evidence makes it plain that price resistance was not the only, or even major factor in this trend. Quite obviously it was the progressive satisfaction of deferred demand which gradually brought sales and sales potentials to a "current" basis, a basis considerably lower than immediate postwar demand swelled by pent-up needs. The same development can now be noted in almost every consumer goods line. Needless to say, with volume of unsatisfied demand diminishing, a substantial amount of deflation, however gradually, is inevitable in order to correct the disequilibrium between high productive capacity and "current demand." The impact cannot help being pronounced and painful.

It is axiomatic that demand tends to be elastic, that is buyers are willing to purchase more at low prices than at high prices. But demand for certain products, especially in the luxury and semi-luxury class as well as durable products, is even more elastic not only because of their narrower markets but because of prolonged utility of the product. There is no need for replacing household appliances at frequent intervals, and the desire to "keep up with the Joneses" since the war has undergone certain modification. In other words, demand in such lines henceforth will again fluctuate with current needs, needs moreover which can easily be postponed without sacrificing essential living standards.

If spending declines, if there is too much saving, goods accumulate and production and employment will fall off. Something of the sort has been going on in recent months. Consumer savings have risen not only because of a greater desire to save but more important, because consumer inventories of a great many goods simply have become filled. To the degree that demand has been satisfied, market potentials have been narrowing, calling for extensive readjustments to the new situation.

Sensitive to Demand Fluctuations

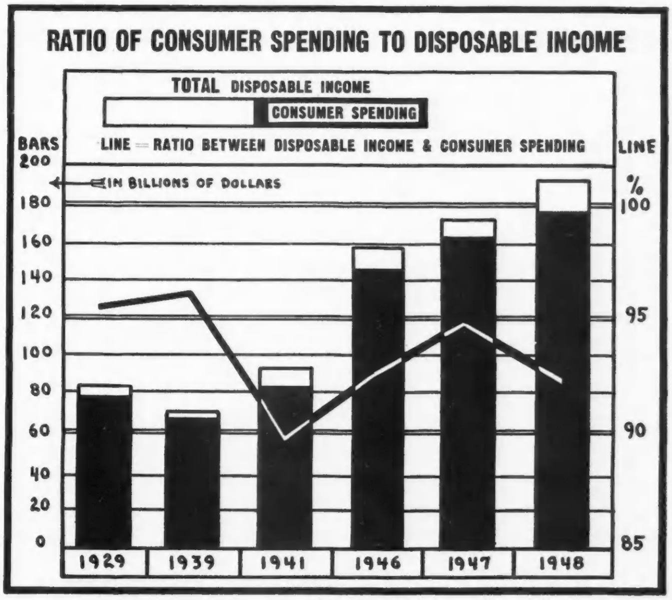
The inevitable deduction is that while high living standards are responsible for high production, employment and income, they also render business highly sensitive to fluctuations in consumer demand. So many consumer units live far above mere subsistence levels that they can readily curb their spending—for whatever reason—without sacrificing basic comforts and conveniences. If a sufficient number of them so decides, or if their immediate needs are satisfied, the impact on business can become serious in an economy where spending over and above subsistence needs makes the difference between prosperity and the absence of it. There is reason to assume that our very ability to enjoy a high standard of living while at the same time dispensing with many articles upon the mass sale of which prosperity depends, is a telling factor in today's business conditions.

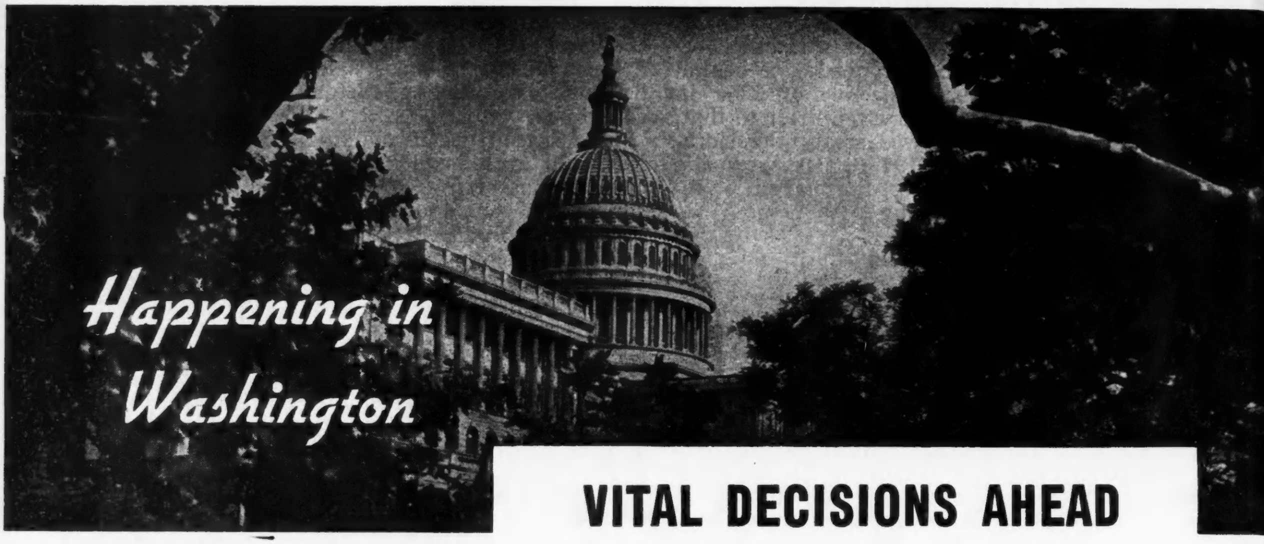
In a scarcity economy, this would be no threat. But ours is a surplus economy whose productive capacity has been greatly expanded in the postwar, and this is bound to revive problems characterized by the high productivity of the modern technological system and by rapid shifts of demand from one product to another. The problem is not new and has been recognized long ago. It was responsible for the appearance of instalment selling because of the need for marketing a huge volume of goods, especially durable consumption goods. Doubtless this artificially stimulated demand through overestimation of future buying power, and in turn led frequently to overproduction of certain types of goods.

No Automatic Adjustment Possible

Today we find outstanding consumer credit below the prewar ratio to income, and the same applies to the ratio of overall debt to savings though consumer credit as well as debt has risen substantially. It goes without saying that the economy does not adjust itself automatically when people quit going into debt or when creditors decide that the saturation point has been reached, any more than when consumers feel that their immediate needs have been satisfied. It calls for readjustment of the resultant disequilibrium, or for steps to minimize it. The latter means the creation of new demands to provide sufficient new business to preserve a prosperous economy, and is mainly contingent upon industry's selling goods and services which people desire but do not actually need, in other words the creation of still higher living standards or the broadening of existing standards among those classes which do not yet enjoy them. Hence the trend towards greater distribution of income, the emphasis on the need of a high wage economy.

The requirements for economic stability are no mystery. Required most (*Please turn to page* 96)





VITAL DECISIONS AHEAD

By E. K. T.

CONCERN over the business trend tends to color a good deal of official Washington thinking, thus the chances of any "boat rocking" through anti-business actions have lessened at least for the moment. Policy is to do nothing that might seriously upset business. Rather, as recent moves in the credit field indicate, business stimulating action will be resorted to whenever conditions are thought to require them. Nevertheless, vital tax decisions must soon be faced and it would be premature to say that the danger of higher corporate taxes is definitely over. It isn't. Higher taxes are still in the air and we shall know more about it by the end of April when the fiscal outlook will be clearer.

TROUBLE is seen not only in big spending ahead but in the prospect of lower tax revenues as result of the changed business picture. It means red ink for fiscal 1950 and this in turn spells either deficit financing or higher taxes. Not only the Administration but Congress as well has little stomach for the former. However reluctant, Congress would vote higher taxes to avoid it though new taxes, if they come, are not likely to apply to 1949 incomes. There are those who feel that modest deficit spending won't hurt, that pump priming of this sort might be helpful in combatting undue deflation. But they are in the minority.

WHETHER political party splits, or republican-Dixiecrat coalitions, actually are doing the job of defeating major planks of the Fair Deal legislative platform, is little more than academic. Fact of the matter is that barring either development, the program would have to be thinned to remain within the bounds of fiscal reason. Here's why: If Administration recommendations are carried out, income taxes would be boosted 13½ per cent, and payroll taxes by 59 per cent; the federal tax rake would be 6½ times what is was before the war.

MORATORIUM of one year on suits arising out of "basing point" selling now seems certain. It is unlikely that congress at this session could take final action on legislation to overcome the Supreme Court ruling — a decision upholding the Federal Trade Commission's banning basing and zone pricing as destructive of fair competition. The Department of Justice has no objection to the suspension of prosecutions which have been initiated. Organized labor demands immediate action but is receiving little encouragement on Capitol Hill.

WASHINGTON SEES:

The economy wave promised by Rep. Clarence Cannon and his democrat-controlled appropriations committee hasn't vented its comforting breeze on federal government costs as yet. As a matter of fact, the lawmakers are on a spending spree and in the five appropriations bills passed by the house so far, they have granted almost one billion dollars more than was allowed last year for conduct of the same public functions.

The appropriations cleared by the house in the first three months covered District of Columbia, Treasury and Post Office, Labor-Federal Security Agency, Army Civil Functions, and Interior Department. Still to come are the crushing loads that are "musts" in the military establishment appropriations.

The first five bills cover budgets totaling 6.5 billion dollars, or 389 millions less than the 6.8-plus billions requested for these purposes by the President. But the amount exceeds by 945 millions the grants to these agencies in the current year.

Added to these amounts is 472 million dollars voted in deficiency appropriations bills—to pay expenses not provided for in this year's budgets. Free spending congressmen say that's proof the 80th Congress economy bloc pared too closely. They seem bent on avoiding that error.

As We Go To Press

Millenium apparently has been reached in Washington. With the long fight over rent controls out of the way, President Truman says he's the victor, the real estate lobby the vanquished, and he's happy; the realty lobby sees the results in an entirely different light, but also is happy! "The new rent control law protects both the tenants and the landlord. The Administration is not surrendering to the real estate lobby," says democratic headquarters. Real Estate Boards answered: President Truman conveniently overlooks his reverses on the bill, is "buttering up" congress for the future.

Small Business lobby, perhaps inadvertently, has raised the still unanswerable question as to when small business ceases to be "small," by giving widespread publicity to a Treasury report "of great interest to those who believe the well-to-do are not paying their full share of taxes." In the assumed role of defender of the rich, the lobby headquarters here cites: only 4.23 per cent of those paying taxes have incomes of more than $6,000 a year, but this group pays 51.27 of all federal tax collected; the remaining 95.77 per cent pay 48.73 per cent of the total. Figures are official.

The petroleum industry is reported to be talking, hopefully, of a compromise on the tidelands oil dispute. Basis of the truce, or agreement, would be a limited partnership between the federal government and the states which have rich offshore sources of oil. The federal government would hold the sovereignty the Supreme Court has said it has, but would share management, and some of the revenue, with the states. Texas, a vitally concerned state, is cool to the proposition, proposes that an agreement be reached to give states sovereignty on near-shore (not precisely defined limits) petroleum.

People's Lobby, a vocal but up to now not very effective congressional gadfly, has finally come up with an idea that appears to be taking hold. It has asked the lawmakers to investigate the allegedly unnecessarily high prices of medicines and vitamins, and to determine whether there is collusion among producers in fixing prices.

The Lobby has placed in the hands of those opposed to a national health bill, an additional reason for setting aside that legislation; if, indeed, any additional reasons seem to the congressmen to be necessary. It will be argued that costs of medical treatment would be nearer the reach of the low-income group if the cost of medicines and the vitamins now in general use, were to be reduced. The slow-moving machinery of the Federal Trade Commission may be brought into play, as the Lobby has suggested. FTC misses no chance to broaden its scope of inquiry; undoubtedly would probe, also, the costs of surgical devices and quite likely would take in hospitalization, "for good measure."

Welcome as "money from Washington" is to municipal treasurers and public works directors, the feeling is growing that the cost -- surrender of some local rights and federal domination -- is too high a price to pay. The City Halls no longer are giving their Washington lobby, American Municipal Association, carte blanche to back bills for grants-in-aid of local projects. Currently in progress is a mail poll which could produce results that would be astonishing if collated 10 years ago. The cities may say "not interested" to federal offers.

Involved is the advance planning bill (S. 707; H.R. 3086). The Federal Works Agency is ready to push for action if the mayors and city managers give the word. It would provide loans totaling 50 million dollars to develop up to two billion dollars in local improvement projects, replenishing the shelf of blueprints to help stabilize construction employment.

FWA found congress and the local government heads not as enthusiastic as they were a few years ago when a postwar depression was accepted as inevitable. But the works agency sees a change setting in, and has asked the city officials for an expression. Put by the American Municipal Association to its membership, is the question: Do municipalities want and need federal advances to help them develop a shelf of public works -- plans for schools, water and sewerage systems, etc? The answers, when compiled into a report to FWA could well mark a turning point in federal-local fiscal relationships.

One of the dampening factors is the concentration by states and their subdivisions upon a plan to re-define the boundaries of state and local taxation. If Washington is to provide money, it must derive money. That means such items as liquor and gasoline taxes will continue to be levied by dual sovereigns. Many of the Governors prefer a broader field of taxation, are willing to finance their own projects.

Disclosure that congressmen are maintaining a double set of payroll accounts which makes for deception by concealing actual facts from the taxpayers, will lead to early reform. The salaries made public don't represent the real payments to assistants in offices of the senators and representatives; actually, they draw 50 per cent more from the Treasury, on average.

The account books open to the public show a salary of $3,000, but the worker draws $4,618.68; a $1,500 a year employee is paid $2,552; a $2,520 employee receives $3,956.56; a $5,040 employee gets $7,405.06; and a $7,320 administrative assistant receives $10,300. It's a great patronage grab. Publicized, only, are pre-war rates of pay fixed by law. To that base, congress has "met the cost of living" by adding 20 per cent, in 1945; 14 per cent more in 1946; 10 per cent additional for "overtime"; and then, last July, a salary boost of $300.

Each year, approximately 200 million dollars of federal taxpayers' money goes "down the sink" for government publications, and congress having debated the subject (as it does annually) has passed over it. Nothing will be done to cut the cost, eliminate the useless. In the latter category are 10 million copies which were condemned in the past two years, sold for waste paper. Congressional investigators found as many as 500,000 copies of one publication on hand, no takers.

The Army prints, quarterly, an index to its publications. The list alone is a 500-page book! Whole floors of government owned or leased buildings are used for "dead storage" as the race goes on among agencies to see which can capture the greatest readership. An interested Senator recently asked for one copy of each publication issued by each agency in the past year. He called a halt when 83,723 different publications arrived. He had no more room for storage . One bureau was ready to send a stack of publications estimated to be 52 feet high.

One of the reasons why the Government Printing Office is in a constant state of physical and personnel expansion may be found in the fact that in the past decade, 133,582,867,587 copies of printed matter were produced by GPO. There's no record of the additional product of 133 printing plants and 256 duplicating plants operated by federal agencies, outside GPO.

Problem of... Japan's Recovery

By V. L. HOROTH

The problem of the rehabilitation of Japan, even without the recent complications arising from the growth of communism in North and Central China and its likely spread southward, was never considered an easy task. About one year ago, soon after the Draper-Johnston Committee returned from Japan, the "reform-punishment" concept characterizing our policies during the first 2½ years of the occupation gradually gave way to the view that economic recovery should be stressed in order to make the country self-sufficient and to lighten the American taxpayer's burden.

There are signs that Washington is once more shifting its viewpoint and objective in regard to Japan's future under the influence of a plan to throw up a barrier against communism in Southeastern Asia. As an important link in a chain of bases stretching from Singapore to Formosa and South Korea, Japan's rehabilitation is to be speeded up and the country is apparently to be given more self-government, and possibly allowed even a home defense army.

The containment of Soviet Russia and Red China in Southeastern Asia will cost money, and unless the American taxpayer is to be saddled with an additional burden, this money will have to be saved somewhere. The logical place is Japan which is costing us about $1 billion a year in occupation costs, relief food and raw materials that we have been providing to Japanese industries. Japanese rehabilitation which, as will be shown later, has made some real progress during the past year, could be speeded up further by doing away with the threat of the removal of excess industrial capacity now hanging over the leading Japanese industries. Instead of playing a passive part, Japan then could play a more active role in the economic revival of Southeastern Asia.

But all this is more easily said than done. In the first place, if Japan is ultimately to get off the U. S. dole, where is she to get the raw materials and foodstuffs to maintain herself? Second, where are the Japanese going to sell their exports, once their industries are fully rehabilitated? Will the new Philippine Republic, intent on industrializing herself, allow herself to be flooded with Japanese goods? Will the Dutch, the French and the British open their remaining colonial areas to Japan? Most important of all, the areas which were the principal source of Japanese imports and the best market for Japanese exports, such as Manchuria, North Korea, Sakhalin, and North and Central China, are now in communist hands. Will we allow Japan to trade with these areas?

Still Undecided

None of these questions is easy to answer, and apparently Washington has not yet made up its mind what to do. As in the case of Germany, opinions as to what industries should be "permitted" to Japan as a "safeguard against new aggression" have undergone a complete change. The earlier view that Japan should concentrate on the production of consumer goods, textiles in particular, has now been, for all practical purposes, abandoned, possibly partly because of the fear that the Japanese might "swamp" the world with cheap textiles as they did before the war.

The view now prevailing is that Japanese industries should be as diversified as possible in order to make the country's economy better balanced. It was thought that Japanese railway and electrical equipment, mining and textile machinery, ships, tools, and capital goods in general could make a valuable contribution to the development of Nationalist China. Now it remains to be seen how the political collapse of that country will influence the

Japan: Business Activity and Prices

	Production Manufact. (1937=100)	Production Mining (1937=100)	Car-loadings (1941=100)	Steel Output (000 tons)	Prices: Wholesale Official (1937=1)	Prices: Black Market (Sep.'45=100)	Electricity Output (000,000 Kwh)	Stock Prices (Dec.'47=100)
1939	117	113	......	558	1.2	......	2,457	......
1940	118	122	......	571	1.3	......	2,581	......
1941	123	121	100.0	587	1.4	......	2,787	......
1946	16	46	63.6	46	12.1	222	2,328	......
1947	20	60	72.2	78	38.6	588	2,461	92
1948								
Mar.	24	74	72.8	113	71.7	646	2,535	220
June	27	70	82.9	133	75.8	767	2,566	176
July	29	69	82.3	140	106.0	785	2,745	202
Aug.	30	64	84.2	149	128.0	753	2,663	173
Sept.	32	72	85.9	165	138.0	755	2,750	169
Oct.	32	75	89.3	183	145.0	760	2,828	198
Nov.	33	75	90.0	192	155.8	754	2,758	......
Dec.	34	78	......	197	157.4	......	2,858	......

(e)—Partly estimated.

future thinking on this subject.

Despite many handicaps, such as the worn-out machinery of Japanese plants, and the red tape of Japanese and occupation officialdom, Japanese industries made fair progress in 1948. As will be seen from the accompanying table, the index of manufacturing production rose late in 1948 to about 35 per cent of the 1937 output. This compares with 22 per cent in the Winter of 1947 and only 16 per cent two years ago. According to a New York Times correspondent in Tokyo, Japanese experts believe that the production figures should be raised by one-third to allow for unreported production that is absorbed by the black market. If so, the latest available production figures would be around 47 per cent of the 1937 average.

Low Steel Output a Handicap

The production index would have made a still better showing had it not been for the very low level of steel output which last Winter was at an annual rate of about 2,000,000 ton, as compared with steel machining capacity of about 7,000,000 tons. This low production of steel is the chief bottleneck in Japan's industrial revival. There is hardly enough steel to satisfy domestic requirements, let alone to be exported in the form of machinery, ships, bicycles, etc. The slow recovery has been only partly due to the disfavor with which heavy industries have been regarded by the occupation authorities as potential war industries of the future. The factor which has been really holding them back, has been the lack of iron ore and suitable coking coal. It is doubtful whether without Manchurian, Korean and other Far Eastern resources, the Japanese steel industry can be operated economically. Coking coal has to be brought at present from the United States and paid for in dollars rather than yen, and at prices far above those that the Japanese steel industries were accustomed to pay before the war.

On the other hand, while the rebuilding of destroyed plants and cities has been progressing slowly, there are more consumer goods available. The food situation has also improved, mainly because of a big rice crop—the largest since the war—and good crops of other staples, such as sweet potatoes. Nevertheless, food still has to be imported.

Inflationary Pressures Abating

Meanwhile inflationary pressures, the original impulse for which seems to have come from the drastic fall of production after the war, have abated somewhat. The official prices are still rising, but much more slowly than during 1948. In contrast, black market prices have been tending downward since last Fall with the result that the spread between official and the black market prices has narrowed materially. At one time, black market prices were 6 to 7 times the official prices; now they are less than 3 times as high.

According to the Oriental Economist, the greater availability of food and consumer goods is only partly responsible for this development. The fact seems to be that many people simply have been priced out of the market. Department store sales have been falling, and shops seem well-stocked with goods which the public cannot afford to buy. Manufacturers, unable to make a profit because of price ceilings, have been selling their raw material inventories to meet payrolls and many of them subsequently had to shut down.

The rising official prices have sharpened the demand of labor for higher wages though backed by the occupation authorities, the Government has been trying to hold the line on wages, insisting that labor can get more money only by increasing productivity. How long wage demands can be resisted now remains to be seen.

As elsewhere, Government deficits (covered largely by borrowing from the Bank of Japan) have contributed to inflation. The new 1949 budget appears to be balanced. But as long as various government corporations administering reconstruction and subsidies continue to borrow freely from the Bank of Japan, the balancing of the regular budget does not mean much. The largest single expenditures, as in Germany, are the occupation costs. At the official rate of exchange (350 yen to the dollar), this costs the Japanese about $400 million a year. As against this amount, this country is spending in Japan this year around $1 billion, of which $470 million go for relief (food) and raw materials.

The revival of foreign trade will play an increasingly important part in Japan's recovery. If the country is to be self-supporting, and if it is to attain the living standard of the depression years 1930-34, it will be necessary for imports to reach about $2 billion. Exports will have to be almost that high—depending upon the earnings of the Japanese merchant marine.

Current exports are still far below this goal. In 1948 it was planned to send abroad some $350 million worth of goods, but actually shipments turned out to be only $275 million. Since imports were $625 million, the U. S. taxpayer was called upon to bridge most of the gap. The export goal for the

1949-50 fiscal year set by the Economic Stabilization Board is $450 million. In Japanese opinion, the attainment of this goal seems to depend (1) on the availability of steel for making machinery, railway equipment, electrical goods, etc. for export, and (2) on the exchange rate for the Japanese yen. At present each export product is assigned a different rate, ranging from about 100 to 800 yen per dollar. Japanese exporters would like to see a uniform rate, somewhere around 450 to 500 yen to the dollar. There is no doubt that currency stabilization would help Japanese exports.

The Question of Trading Partners

Apparently another reason for the failure of Japanese exports to come up to the planned level has been the shortage of dollars and pound sterling on the part of Japan's customers. It is now hoped that barter trade agreements concluded during the past few months with Indo-China, Indonesia, Pakistan, Egypt, Sweden, Siam, and Great Britain will provide the country with needed raw materials and foodstuffs in return for fabricated products of all kinds.

Obviously Japan's success in expanding her trade during the next five years from some $275 million in 1948 to $2,000 million by 1953 will depend to a large extent upon the revival of Far Eastern economies which in the long run must provide Japan with those raw materials and foodstuffs that the United States is paying for at present. It has been appropriately said that Japanese recovery "cannot be accomplished in a Far Eastern vacuum."

"The bold new program" for relatively undeveloped areas offered in President Truman's inaugural address offers a ray of hope. Even limited projects aiming at the expansion of production of food and raw materials in some of the countries of Southeastern and Far Eastern Asia could prove helpful in making Japan gradually more and more self-sufficient. The rehabilitation of South Korea, for which we are to spend in the neighborhood of $200 million a year during the next few years, offers a splendid opportunity for Japanese capital goods industries. The Koreans will need a good deal of mining and textile machinery, electrical and railway equipment which could be supplied by Japan in return for Korean raw materials and fishery products. Some of the dollars that are likely to be spent in Formosa, South China, and Indonesia in throwing up a barrier against communism could likewise find their way to Japan, and help bridge the gap in her international payments with the United States.

Japan vs. Her Neighbors

One problem is whether we can sell the idea of Japan as a strong self-sufficient military outpost against communism to some of the neighboring countries, the Philippines, South China and even Australia. These have not forgotten the days of "Japan's co-prosperity era" and are alarmed about our strengthening of reactionary elements and about our complacency in letting the Japanese keep all their industrial capacity—which only a few years ago we condemned as "far in excess of Japanese needs."

Moreover, if we go and build up Japan deliberately as a military base against the communist-held

Japan's Trade in 1947

(In Millions of Dollars)

Principal Imports		Principal Exports	
Grains	$232	Cotton Fabrics	$ 85
Cotton	70	Cotton Yarn	18
Fertilizers	67	Raw Silk	11
Petroleum Products	38	Coal	8
Foodstuffs and Feeds	26	Silk Fabric	6
Vegetables and Prep.	26	Wood and Paper	7
Salt	12	Non-ferrous Metals	5
All Others	55	All Others	34
Total	$526	Total	$174
Chief Suppliers		**Chief Markets**	
United States	$484	Netherland Indies	$ 23
India	10	Great Britain	21
Great Britain	9	United States	20
China	5	Korea	18
Malaya	5	Turkey	15
Hong-kong	4	Hong-kong	14
All Others	9	All Others	63
Total	$526	Total	$174

Asiatic mainland, North and Central China, Manchuria, North Korea, Sakhalin and other areas in Asia may be reluctant to trade with her. Yet, before the war, at least one-third of Japanese imports consisting largely of foodstuffs, salt, coal, iron ore, lumber, and pulp were supplied from these areas which in turn took about 40 per cent of the Japanese exports. Without the trade with this more or less natural hinterland, Japan will be forced to intensify her export drive in the non-communist countries of Southeastern Asia and in the West.

Thus it looks as if we are facing a Hobson's choice insofar as Japan is concerned. To let her flounder in her postwar misery, after we have deprived her of colonies and weakened her industries, would be to invite communism. On the other hand the building of a strong, self-sufficient Japan ready to defend herself against communism will most certainly be a burden to the American taxpayer for many years to come, and is bound to alienate our former allies in the Far East. This is why the problem of Japan's recovery poses quite a dilemma.

Crux of our policy in Japan: Building a barrier against communism and yet safeguard against new aggression. To evolve a median course poses a dilemma.

The CHEMICAL INDUSTRY Under Readjustment

By STANLEY DEVLIN

The fountain of youth for which Ponce de Leon, Spanish explorer, searched in vain has been discovered by the chemical industry. That is the only reasonable explanation that can be advanced to account for consistently prolonged growth unparallelled among major industries. The magic fountain actually is the research laboratory where incredible regenerative forces are created.

Notwithstanding extraordinary expansion during the war in connection with supplying enormous industial and military requirements for every type of chemical product, not to mention vast quantities of pharmaceuticals, the chemical industry has experienced continued expansion. Progress in the last year has more than fulfilled optimistic expectations. It is little wonder that stocks representing this industry continue to command high investor regard even while corporate earning power and assets in other industries are being modestly appraised.

Without a searching study of fundamentals, the inexperienced investor may not fully appreciate the underlying reason for this industry's strategic position. Briefly it may be attributed to the fact that chemical products constantly are becoming increasingly essential in a wide variety of industries, as well as to the fact that they also are becoming vital as the source of the nation's well being in the matter of health and of national defense. As pointed out in former surveys, products of the chemical laboratory have come to be regarded, in terms of human satisfaction, as virtually priceless. Recognition of this all too apparent aspect helps explain the industry's dramatic rise to prominence and its essentiality that find reflection in popularity of chemical stocks.

The extent of the industry's growth in the last decade is not generally appreciated outside of the trade. Yet the very size of this expansion is a source of anxiety to those who are aware of it and wonder whether or not progress may have been too rapid. Competition from new discoveries within the industry also may present problems for companies representing outmoded processes. With demand and supply in better balance than at this time a year ago, the outlook is for less uniformity in sales and earnings gains. Hence the need for greater selectivity.

Broad Background Factors

Before turning to various segments of the industry it may be well first to examine the general background. With the reservation that not all products are equally favorably situated, it is fair to say that demand is being sustained on a relatively high plane, that productive facilities are adequate for almost every important item and that profit margins are quite satisfactory. With productive efficiency at the highest point since the war, the outlook is promising for earnings comparing favorably with 1948 results in a majority of instances and for dividends likely to be a trifle larger, on the average rather than smaller. This prospect appears a reasonable probability unless industrial activity suffers

a worse relapse than now seems likely.

The basis for an above-average forecast for chemicals may be explained chiefly by the fact that benefits of an extensive plant modernization program are being experienced more importantly this year than ever before, and by reason of the fact that many products will be necessary for our own armament program as well as for assisting other nations in the North Atlantic Alliance. Markets have widened at home as well as abroad with the result that production gives promise of holding close to 1948 levels except for minor variations in individual products.

Lower Profit Margins Indicated

Profit margins, which improved to an unexpected extent last year, may recede in 1949 — especially in a few instances in which supply has exceeded demand and competition has returned with full force. Nevertheless, earnings should not be seriously impaired in the case of large integrated companies which have well entrenched products. Even if results should fall somewhat short of 1948 figures, dividend coverage still should prove adequate. Comprehensive statistics on income account and balance sheets for a number of leading companies are presented in an accompanying tabulation. An examination of such data should prove helpful in appraising potentialities of companies discussed in this article.

Need for adhering to a selective policy in appraising chemical stocks under today's competitive conditions may be best understood by analyzing sales trends indicating the importance of various industrial outlets, to see where progress is most evident. Trade data indicate that fertilizer producers ordinarily take (chiefly as sulphuric acid) about a quarter of industrial chemical consumption. Approximately 24 per cent went into this channel last year, compared with about 20 per cent in 1935. Rayon has climbed to second position from only seventh thirteen years ago with about 12 per cent of the total in 1948, compared with slightly more than 6 per cent in 1935. Paints and varnishes have become more important and rank third, but greatest percentage growth is in plastics, which now take about 4 per cent of output, against only 1.5 per cent in 1935.

On the average it is calculated that industrial chemical sales have increased about 77 per cent over 1937 volume. Individual industries have experienced above-average gains. Here are examples: Plastics 261 per cent, rayon 203, paints 125, rubber 100, and fertilizer 87.

As principal products of leading representatives of the industry are studied against this background, wide variations in growth may be more readily understood. The fact that progress in Monsanto Chemical or in Dow has far surpassed that of Allied Chemical and duPont is accounted for by fact that development of new products has been more noticeable in the smaller companies. The extent of variations in earnings in the last quarter of a century may be best compared by use of index numbers. With 1929 net income equal to 100, results of several companies for significant years have followed different trends. (see table)

Aside from evidence of outstanding progress in Dow and Monsanto, already mentioned, this comparison discloses the interesting fact that representative chemicals had topped their 1929 earnings

Index of Earnings in Selected Years

1929 = 100

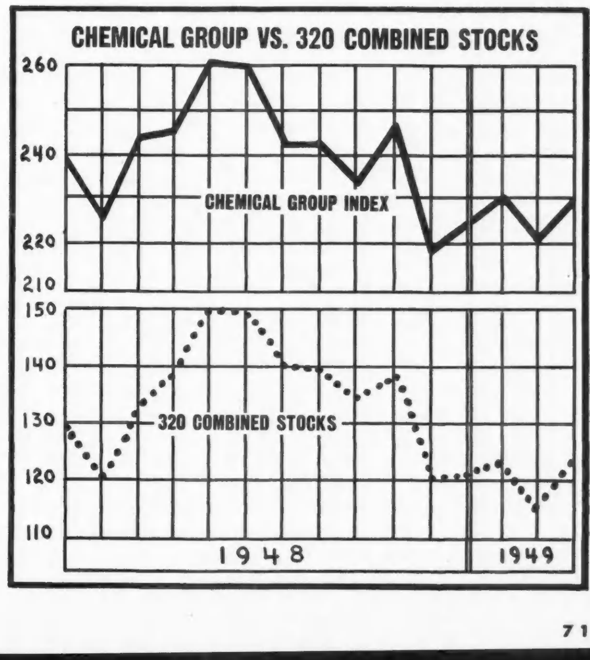
	1935	1939	1947	1948
Allied Chemical & Dye	71.9	69.7	101.5	106.4
American Cyanamid	87.9	119.6	191.5	248.5
Dow Chemical*	119.4	156.8	457.6	757.0
duPont	79.4	119.2	153.5	201.3
Hercules Powder	72.8	122.2	297.0	251.7
Monsanto	322.0	479.8	1360.0	1569.0
Union Carbide	76.9	101.2	213.8	287.9

*Fiscal year ended May 31.

peaks as early as 1939 and that even Allied Chemical had scaled the previous top by 1947. Although a measurement of this sort raises the question as to whether such expansion can be maintained in the face of intensifying competition, the fact must not be forgotten that technological progress has been phenomenal and production costs steadily have been lowered. This trend toward holding down costs has broadened markets and has strengthened the competitive position of chemicals.

Government statistics show that whereas chemicals were about in line pricewise with allied products and all commodities (on basis of Department of Labor index numbers) as recently as 1945 under price ceilings, latest tabulations for 1948 show chemicals at 126 (1926 equals 100), allied products at 135 and all commodities except farm and foods at 151. The fact that chemical price has risen only about 30 per cent from OPA ceilings is important in considering prospects of industries dependent largely on raw materials from this source.

Because many large integrated companies are represented in a variety of products, sales figures tend to obscure to some extent uneven growth among certain segments — particularly in petrochemicals. Coal tar lines which experienced outstanding gains a quarter of a century ago now are more matured and their growth is geared more closely to the uptrend in general industrial activity. Heavy chemicals, demand for which outstripped productive capacity during the war, have caught



Comprehensive Statistics Analyzing

Figures are in million dollars, except where otherwise stated. CAPITALIZATION:	Air Reduction	Allied Chemical & Dye	American Cyanamid	Atlas Powder	Columbian Carbon	Commercial Solvents
Long Term Debt, Stated Value	$29.5	....	$61.1	$3.0	....	....
Preferred Stocks, Stated Value	....	....	$39.1	$6.8	....	....
Common Stocks (000 omitted)	2,736	2,401	2,738	259	1,612	2,637
Total Capitalization	$57.5	$12.0	$127.6	$18.6	$21.8	$6.6
INCOME ACCOUNT: For Fiscal Year Ended	12/31/48	12/31/48	12/31/48	12/31/48	12/31/48	12/31/48
Net Sales	$94.8	$387.7	$232.0	$43.1	$42.9	$41.5
Depreciation, Depletion, Amortization, etc.	$3.9	$7.7	$8.6	$1.0	$2.8	$1.2
Taxes	$4.4	$22.5	$5.9	$.6	$2.7	$3.0
Net Available for Interest	$10.9	....	$13.3	$2.0	....	....
Interest (Bonds and Long Term Debt)	$.8	....	$1.5	$.07	....	....
Preferred Dividend Requirements	....	....	$1.4	$.3	....	....
Balance for Common	$6.4	$41.3	$11.9	$1.0	$6.5	$5.5
Operating Margin	15.8%	17.4%	15.2%	6.9%	25.6%	20.2%
Net Profit Margin	6.8%	10.6%	5.1%	3.0%	15.2%	13.6%
Percent Earned on Invested Capital	8.0%	13.9%	7.5%	4.5%	15.1%	16.4%
Number of Times Interest Charges Earned	13.60	....	9.19	28.50	....	....
Earned Per Common Share	$2.36	$14.35	$3.84	$3.91	$4.03	$2.10
Current Price of Common	$21	$176	$40	$50	$31	$17
Dividends	$1.00	$9.00	$1.50	$2.50	$2.00	$1.50
Dividend Yield	4.8%	5.1%	3.7%	5.0%	6.4%	8.8%
Price-Earnings Ratio	8.9	12.2	10.4	12.8	7.7	8.1
BALANCE SHEET: Fiscal Year Ended	12/31/48	12/31/48	12/31/48	12/31/48	12/31/48	12/31/48
Cash Assets or Equivalent	$18.2	$92.9	$31.9	$5.1	$8.1	$5.4
Inventories, Net	$13.1	$36.4	$48.9	$6.9	$5.7	$7.4
Receivables, Net	$10.7	$30.9	$22.0	$4.5	$3.5	$4.2
Current Assets	$42.1	$160.3	$102.8	$16.5	$17.3	$17.1
Current Liabilities	$11.9	$42.7	$34.1	$3.1	$4.6	$3.9
Net Current Assets	$30.2	$117.6	$68.7	$13.4	$12.7	$13.2
Fixed Assets, Net	$45.6	$134.8	$92.5	$11.8	$28.3	$17.6
Total Assets	$94.5	$597.1	$212.0	$32.9	$48.8	$39.9
Book Value Per Share	$19.28	$124.02	$28.38	$61.67	$25.77	$12.85
Net Current Asset Value Per Share (b)	....	$48.50	....	$14.80	$8.35	$5.00
Cash Asset Value Per Share	$6.70	$38.75	$11.70	$19.60	$5.00	$2.05
Current Ratio	3.5	3.7	3.0	5.4	3.7	4.4
Inventories, % of Sales	13.8%	9.4%	21.2%	16.0%	13.2%	18.0%
Inventories, % of Current Assets	31.1%	22.6%	47.8%	41.7%	33.0%	43.6%
Depreciation and Depletion, % of Gross Fixed Assets	4.5%	2.0%	5.1%	4.1%	4.1%	3.8%

*—Adjustments made for stock-splits.
b—After deducting senior obligations.

up and now may be expected to keep in line with general business. Synthetic organic chemicals, however, especially products derived from a petroleum base, have registered greatest progress.

As a guide to what may be in store for the future, it may be well to study production trends of important products in the past year. In heavy chemicals, of which sulphuric acid is the most important, largest gains were in chlorine and caustic soda. Output of the latter approximated 2.4 million tons, compared with about 2.1 million in 1947; while chlorine gained about 12 per cent at 1.6 million tons. Sulphuric acid increased some 3 per cent to 10.3 million tons and soda ash gained only 2 per cent at 4.9 million. Principal producers of heavy chemicals include Allied Chemical & Dye, American Cyanamid, Dow Chemical, duPont, Hercules Powder, Mathieson Chemical, Monsanto and Union Carbide & Carbon.

Synthetic organic chemicals include coal tar derivatives, such as dyes, perfume materials, synthetic resins and various types of synthetic glycerine. Coal tar chemicals increased last year only about 2 per cent, while synthetic organic chemicals registered a gain of more than 12 per cent. Output of methanol jumped some 85 per cent to about a billion pounds. Rayon production rose about 14 per cent, and plastic materials accounted for a gain of about 15 per cent over 1947.

Large Producers in Various Fields

Principal producers of industrial gases include Union Carbide, Air Reduction and National Cylinder Gas. Sulphur companies include Texas Gulf and Freeport. Carbon black producers are Columbian and United Carbon. Fertilizer concerns include American Agricultural Chemical, International Minerals and Virginia-Carolina. Miscellaneous products are produced by Commercial Solvents, U. S. Industrial Chemicals, Newport Industries and Victor Chemical Works.

As a consequence of recent developments it now is necessary at least to mention petroleum companies in any discussion of chemicals, for most of the large integrated producers have important

*Position of Leading Chemical Companies**

Davison Chemical	Dow Chemical	DuPont	Hercules Powder	International Min. & Chemical	Mathieson Chemical	Monsanto Chemical	Pennsylvania Salt	Union Carbide & Carbon	United Carbon	Victor Chemical
$4.6	$67.2	....	....	$13.1	$11.6	$30.5	$3.0	$150.0	....	$.3
....	$70.4	$268.9	$9.6	$9.9	$2.4	$33.1	$4.4	....	....	$8.0
514	4,995	11,158	2,633	789	830	4,275	764	28,807	796	749
$5.1	$212.5	$492.0	$26.6	$26.9	$29.5	$84.4	$15.0	$344.5	$11.9	$11.8
6/30/48	5/31/48	12/31/48	12/31/48	6/30/48	12/31/48	12/31/48	12/31/48	12/31/48	12/31/48	12/31/48
$33.5	$170.7	$977.8	$129.3	$50.1	$31.9	$161.6	$32.4	$631.6	$26.0	$25.8
$1.0	$14.2	$61.9	$6.3	$2.2	$2.8	$7.2	$1.6	$21.7	$3.6	$.9
$1.4	$12.4	$92.2	$6.8	$1.6	$2.8	$10.1	$1.3	$57.2	$1.7	$1.4
$4.7	$23.9	....	....	$7.2	....	....	....	$163.6	....	....
$.1	$1.7	....	....	$.4	....	....	....	$4.1	....	....
....	$2.5	$11.1	$.4	$.4	$.2	$1.1	$.2	....	....	$.3
$2.6	$18.6	$146.3	$10.5	$4.6	$4.6	$17.0	$2.1	$102.3	$3.1	$1.9
16.8%	28.8%	26.5%	18.6%	18.6%	31.8%	21.0%	14.4%	28.0%	36.0%	17.2%
7.8%	14.0%	16.1%	8.4%	10.0%	15.0%	11.2%	7.1%	16.2%	12.0%	8.4%
11.7%	9.8%	18.3%	15.3%	10.3%	11.5%	11.6%	8.3%	18.0%	13.5%	11.5%
42.50	14.27	....	....	20.50	....	....	....	40.30	....	....
$5.07	$3.72	$13.12	$3.97	$5.85	$5.61	$3.95	$2.78	$3.55	$3.91	$2.52
$18	$47	$190	$42	$26	$37	$54	$37	$39	$33	$38
$1.50	$1.00 k	$9.75	$2.25	$1.70	$1.75	$2.00	$1.50	$1.67	$2.00	$1.75
8.3%	2.1%	5.1%	5.4%	6.5%	4.7%	3.7%	4.0%	4.3%	6.1%	4.6%
3.6	12.6	14.5	10.6	4.5	6.6	13.6	13.3	11.0	8.5	15.1
6/30/48	5/31/48	12/31/48	12/31/48	6/30/48	12/31/48	12/31/48	12/31/48	12/31/48	12/31/48	12/31/48
$4.9	$22.8	$170.3	$18.2	$4.6	$2.6	$17.6	$3.1	$158.3	$5.9	$2.6
$5.1	$36.7	$157.1	$19.3	$8.9	$4.6	$33.6	$7.3	$126.1	$2.3	$4.8
$1.9	$23.6	$79.4	$8.4	$3.1	$3.9	$18.0	$3.5	$71.5	$2.3	$1.9
$12.4	$83.2	$406.8	$47.0	$16.6	$11.1	$69.2	$14.1	$356.0	$10.5	$9.3
$2.1	$29.1	$87.1	$12.6	$3.4	$5.8	$17.3	$4.6	$124.9	$3.7	$2.0
$10.3	$54.1	$319.7	$34.4	$13.2	$5.3	$51.9	$9.5	$231.1	$6.8	$7.3
$12.4	$176.8	$413.0	$35.9	$39.0	$36.5	$149.7	$20.2	$330.3	$14.6	$11.9
$25.2	$271.5	$1,585.3	$84.0	$56.5	$79.7	$226.7	$35.4	$722.7	$29.5	$22.3
$35.93	$20.73	$67.03	$23.62	$37.87	$34.46	$21.69	$30.33	$15.54	$32.37	$14.67
$11.00	....	$4.57	$9.40	....	....	....	$2.70	$2.80	$9.70	....
$9.60	$4.65	$16.30	$6.90	$5.83	$3.10	$4.10	$4.05	$5.50	$7.40	$3.45
6.0	2.9	4.7	3.8	4.9	1.9	4.0	3.1	2.9	2.8	4.6
15.3%	21.6%	16.0%	15.0%	18.0%	14.5%	20.8%	22.7%	20.0%	8.8%	18.6%
41.5%	44.4%	38.6%	41.0%	54.0%	45.0%	48.5%	52.3%	36.5%	22.0%	51.2%
5.2%	6.2%	7.6%	7.5%	4.4%	4.1%	3.8%	4.1%	3.5%	7.9%	5.5%

k—Plus stock.

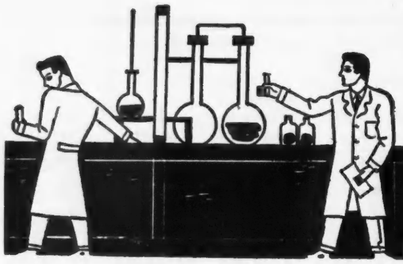
stakes in organic chemicals of the oxygenated type either as primary producers or as suppliers of hydrocarbons to other companies. The Texas Company is jointly interested with American Cyanamid in Jefferson Chemical, which operates a plant in Port Arthur, Texas, with an annual capacity of 12 million gallons of theylene glycol. Its principal product is a permanent type of anti-freeze marketed through Texaco stations. Shell Union, through a subsidiary, has begun production of ethyl alcohol and synthetic glycerine in a large new plant in Houston. Union Carbide & Carbon has become a major producer of methanol, ethyl alcohol, ethylene glycol and higher alcohol at plants in Indiana, West Virginia and Texas with co-operation of oil producers who supply raw materials.

Natural gas is another important raw material now being converted into basic chemicals. Celanese Corporation is understood to produce in its large Bishop, Texas plant about 100 million pounds of acetic acid annually and larger quantities of formaldehyde solution as well as millions of gallons of methanol. This company is a large producer also of other oxygenated chemicals and is experimenting on additional products.

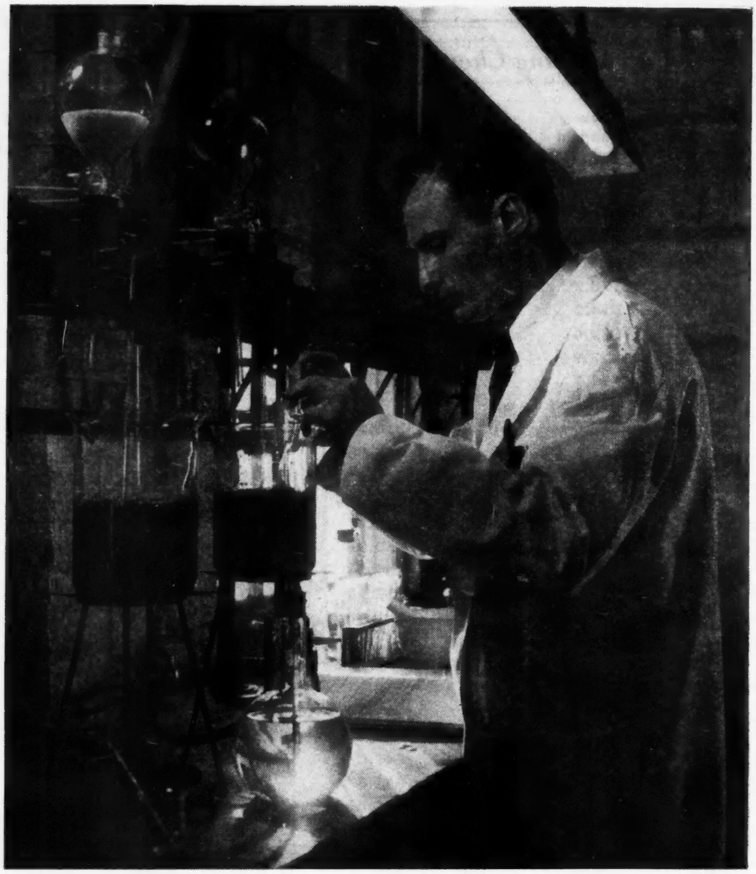
Sharp Drop in Alcohol Prices

Growth of ethyl alcohol production during the war was stimulated by wide profit margins obtainable on materials produced from petroleum. Because of urgent military requirements, alcohol prices soared, especially after removal of price ceilings, to above $1 a gallon. This price afforded substantial profits for efficient producers, inasmuch as costs averaged 15 to 20 cents a gallon by the conversion of petroleum gases. When demand began to falter late last year, prices fell sharply from about 70 cents to between 20 and 25 cents a gallon. This development had an adverse effect on distillers who produced alcohol from molasses by the fermentation process as well as on chemical companies whose inventory values were depreciated. As a consequence, profit margins on ethyl alcohol, methanol and other solvents have been pared down considerably.

Overproduction is not (*Please turn to page* 94)



...DRUG... Companies in the Investment Laboratory



By GEORGE L. MERTON

A unique combination of circumstances promises to hold 1949 sales and earnings of prominent drug manufacturers close to the excellent levels established last year. In a few instances it is quite possible that further earnings gains will be recorded. The outlook for producers of ethical drugs is particularly encouraging, and while that for manufacturers of proprietaries is slightly less assured, the current year should prove satisfactory to most units in this division.

Generally speaking, war-stimulated research has enabled the drug industry to progress faster in the last five years than ever before in history. A multitude of valuable new aids to medical science has appeared in a period when emphasis upon health has won worldwide recognition. As most of our domestic drug manufacturers are well entrenched in many foreign markets, and demand in the home field is so stable as to be relatively depression-resistant, market prospects are indeed encouraging. On the other hand, growth potentials of this industry hinge more upon the expansion of population than upon broad economic factors, although ample consumer incomes of course encourage larger outlays for medical care and hygiene. But even in lean times, first place in family budgets is accorded to essential health requirements.

Thus despite all the uncertainties now clouding the economy, leading suppliers of prescribed or popular remedies enjoy valid hopes of high level sales, with reputation in the medical profession a strong supporting factor. Confidence of the doctors in the purity of ethical drugs produced by certain long-established concerns has given them a competitive advantage from which they cannot be easily dislodged. About half the over-all volume of the industry consists of items recommended by physicians and surgeons. Makers of proprietaries, that is to say of packaged drugs and remedies sold by promotional activities, are far more vulnerable to competition, although name popularity markedly strengthens trade positions.

The start of 1949 found most drug manufacturers with their postwar readjustment problems pretty well solved. In the last two years when pipelines became amply filled and distributors were worried over somewhat burdensome inventories, sales of more than one producer, especially in the proprietary group, developed a decline. By the fall of 1948, however, demand picked up incisively and wholesale orders for drugs generally reached record proportions towards the end of the year. To some degree this trend was normal because of seasonal influences characteristic in the industry. Until first quarter reports come to hand, further progress cannot be properly determined, but it is believed that they will show no undue inventory accumulation at the retail level at a time of year when demand seasonally reaches a peak. Mid-summer demand normally lags, but by early fall purchase of drugs is rapidly stepped up and there is little to indicate any deviation from the customary pattern in the current year.

Sound Product Price Structure

Another constructive factor that deserves consideration is the current sound status of drug prices. Despite a rise of over 70% in wages and materials costs in recent years, wholesale prices for ethical

drugs have displayed extraordinary stability, in fact holding close to the 1939 level. Rising costs led manufacturers of some proprietaries to lift prices moderately last year, but for almost ten years the average price for all drugs has advanced only about 3%. Prices for certain specialties like penicillin and streptomycin have declined as production expanded but the drop was from a very high level.

The current wave of consumer resistance to high prices for most kinds of merchandise, accordingly, shoud not extend to medicinals. Hence to well situated manufacturers who for several years past have experienced varying success in relying on volume gains to offset rising operating expenses, the threat of pressure for price concessions should be relatively negligible.

Benefits From Lower Materials Prices— Low Wage Ratio

What adds strength to this advantage is the downtrend in materials prices since last fall and the increasing availablity of supplies. Ethyl alcohol prices, for example, have tumbled drastically, and large quantities of it are used by drug manufacturers. In like manner, sugar prices have long passed their postwar peak and those of glass and fiber containers have weakened. Many imported ingredients have reached a status of much improved supply, while under the stress of wartime conditions many new sources for these foreign materials were established not only in the United States but in Latin-America and South Africa as well. Additionally, it has been found possible to synthesize the manufacture of numerous basic drugs, lessening the expense and delay of bringing them from overseas. In short, widening margins should result from this downtrend in materials costs, especially as they are the predominant item in over-all expenses, normally absorbing almost 70% of the sales dollar. Wages, on the other hand, account for only about 10%, ranking among the lowest of all industries percentagewise.

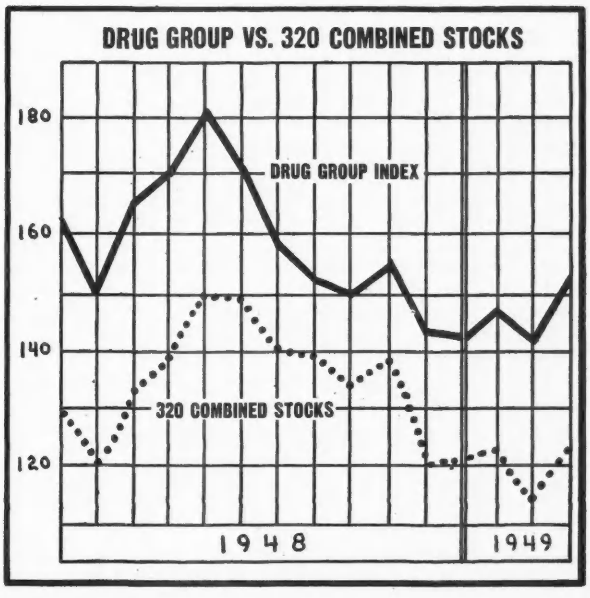
The encouraging score would be far from complete if proper weight were not accorded to expansion and modernization programs now virtually completed by many of the leading units in this industry. Considering that a total annual business volume of not much more than $1.3 billion may look rather modest compared with other industrial groups, aggregate outlays in postwar of around $135 million for improved facilities gain significance. Outmoded plants and equipment have been replaced on a large scale, with ultramodern machinery stepping up production of everything from pills to penicillin and streptomycin. Up to date new laboratories are constantly developing a steady stream of valuable discoveries to enhance the industry's growth potentials in world markets. Between science and improved operating techniques, it looks as though many of the leading concerns in the field should comfortably sustain their traditional record for stable earnings and slow but steady growth.

A seemingly endless horizon for the development of new drugs, despite amazing progress since the beginning of World War II, lends confidence to current optimistic appraisals of the industry. Furthermore, many of the new discoveries have broadened market potentials by application to foods as well as medicines, and to animals and poultry as well as humans. Nearly 50 million pounds of chemicals annually are now needed to produce vitamins, items unheard of some years ago. Where only 2100 pounds of penicillin were manufactured as recently as 1944, 130,000 pounds were produced last year. Production of 80,000 pounds of streptomycin last year compares with virtually nothing four years ago. Vastly increased output of these items has lowered their price, a factor offset by widened markets. Chloromycetin, a newcomer, is proving its value in curing typhus and spotted fever; new sulfa drugs promise headway against cholera and poliomytis, while new anti-malarials are accomplishing significant results. The list could be greatly lengthened and is constantly receiving additions.

Aside from constantly expanding home markets, those of virtually every country in the world are being exploited by the leading drug manufacturers. The elimination of Germany as a main foreign supplier opened the door wide to American firms and they have been alert to take advantage of the opportunity. Dollar shortages last year curtailed exports to some extent, but allowance must be made for numerous manufacturing plants established abroad by domestic producers. Everywhere from England to India, Australia to Brazil, France to South Africa, American subsidiary plants are turning out drug products based on home research, and with the most modern equipment. Exchange problems often hamper transfer of earnings to parent treasuries, but the essential nature of the business frequently eases the exchange restrictions. How worldwise the activities of individual concerns have become will be clarified as we proceed to discuss the status and prospects of some of them.

Abbott Laboratories

Probably no better example of drug company progress, policies and potentials can be found than by examining the status of Abbott Laboratories. Since 1888 this concern has manufactured pharmaceutical, biological and chemical products for the medical profession. Operations are now conducted in every country in the world except Soviet Russia. Due to intensive research and expanding markets,



Comprehensive Statistics Analyzing

Figures are in million dollars, except where otherwise stated. CAPITALIZATION:	Abbott Laboratories	Merck & Co.	Parke, Davis	Sharpe & Dohme	Squibb & Sons
Long Term Debt, Stated Value	....	$5.0	$4.5	$4.1	$3.2
Preferred Stocks, Stated Value	....	$12.0	....	n.s.	$23.6
Common Stocks (000 omitted)	1,870	1,100	4,897	791	1,514
Total Capitalization	$25.4	$18.1	$18.6	$13.1	$30.3
INCOME ACCOUNT: For Fiscal Year Ended	12/31/48	12/31/48	12/31/48	12/31/48	6/30/48
Net Sales	$66.9	$72.9	$74.5	$35.2	$74.4
Depreciation, Amortization, etc.	$.8	$2.2	$.7	$.4	$.9
Taxes	$6.2	$5.3	$5.3	$2.4	$2.4
Net Available for Interest	....	....	$14.9	....	$6.8
Interest (Bonds and Long Term Debt)	....	....	$.1	....	$.3
Preferred Dividend Requirements	....	$.4	....	$.8	$.2
Balance for Common	$11.1	$8.0	$9.7	$3.3	$3.6
Operating Margin	27.5%	21.5%	21.0%	17.0%	9.9%
Net Profit Margin	16.8%	11.6%	13.0%	11.6%	5.1%
Percent Earned on Invested Capital	23.9%	17.0%	17.8%	16.6%	7.2%
Number of Times Interest Charges Earned	....	....	86.00	....	24.65
Earned Per Common Share	$5.95	$7.36	$1.98	$4.16	$2.02
Current Price of Common	$78	$58	$28	$28	$27
Dividends	$3.40	$2.90	$1.40	$1.00	$1.00
Dividend Yield	4.4%	5.0%	5.0%	3.6%	3.7%
Price-Earnings Ratio	13.0	7.9	14.2	6.7	13.4
BALANCE SHEET: Fiscal Year Ended	12/31/48	12/31/48	12/31/48	12/31/48	6/30/48
Cash Assets or Equivalent	$20.2	$8.2	$7.1	$6.8	$7.6
Inventories, Net	$18.0	$19.0	$29.5	$9.9	$23.2
Receivables, Net	$11.4	$4.8	$9.9	$4.2	$12.9
Current Assets	$49.7	$32.9	$47.1	$22.7	$43.7
Current Liabilities	$16.3	$10.7	$13.7	$5.1	$12.1
Net Current Assets	$33.4	$22.2	$33.4	$17.6	$35.6
Fixed Assets, Net	$12.9	$27.0	$17.5	$6.6	$18.1
Total Assets	$66.1	$60.7	$68.2	$29.8	$64.7
Book Value Per Share	$26.60	$30.06	$10.22	....	$15.61
Net Current Asset Value Per Share (b)	$17.80	$4.90	$5.90	....	....
Cash Asset Value Per Share	$10.40	$7.40	$1.45	$8.60	$5.00
Current Ratio	3.1	3.1	3.5	4.5	3.3
Inventories, % of Sales	27.0%	26.0%	39.6%	28.0%	31.0%
Inventories, % of Current Assets	36.3%	57.7%	63.0%	43.5%	53.0%
Depreciation, % of Gross Fixed Assets	5.0%	6.1%	4.0%	3.8%	3.3%

*—Figures adjusted for stock-splits; in these computations minor sums have been disregarded.
(a)—Including subsidiaries.

annual sales reached an all-time peak of $66.9 million in 1949 as compared with $12.9 million in 1940, although during this period the average price of the company's numerous products was reduced about 22%. How importantly new products were responsible for volume growth is shown by the fact that new items developed since 1940 accounted for about two-thirds of total sales. Last year alone, 53 new products were introduced. Among these were the first commercially produced radio-active isotopes, and these compounds are being supplied at less than cost to certified hospitals and research organizations in cooperation with the Atomic Energy Commission.

At the beginning of 1949, Abbott Laboratories had almost tripled its facilities in the course of a decade, but mainly in postwar. Its expansion program has now been largely completed. Working capital of $33.4 million is of record proportions and neither funded debt nor preferred stock precedes the one class common, consisting of about 1.8 million shares outstanding. Dividends have been paid without a break since 1926, at least, payments of $3.40 per share last year representing a peak and comparing with net earnings of $5.95 per share. The quarterly dividend rate was raised to 65 cents per share last August, followed by a year-end extra of 35 cents paid in January and another extra of 15 cents paid April 1, in both cases supplementing the regular distribution. At recent price of 78, Abbott shares yield about 4.40%, rather low under today's market conditions, hence attesting to their above-average investment quality.

American Home Products

Worldwide sale of American Home Products rose by $13.1 million last year to a record peak of $140.7 million. About 39% of this volume represented pharmaceutical, biological and nutritional products, 20% packaged drugs and cosmetics, 27% food products and 14% household products, colors and dyes. This broad diversification stems from acquisition of numerous well established concerns since 1926. About 20% of overall sales consist of exports or sales of subsidiaries in foreign countries. During

*Position of Individual Drug Companies**

Bristol Myers	Lambert Company	Sterling Drug	Vick Chemical	American Home Products	McKesson & Robbins	Lehn & Fink	Norwich Pharmacal	Rexall Drug	Zonite Products
$10.0	$1.6	$14.7	....	$13.4	....	$2.3	$1.0	$30.7(a)	....
$7.1	....	$12.2	....	....	$15.0	....	....	....	....
1,381	746	3,793	1,419	3,858	1,682	396	796	3,467	825
$20.5	$2.2	$45.8	$3.6	$17.2	$45.2	$4.2	$3.0	$39.4(a)	$.8
12/31/48	12/31/48	12/31/48	6/30/48	12/31/48	6/30/48	6/30/48	12/31/48	12/31/48	12/31/48
$45.3	$22.7	$134.3	$41.7	$140.7	$352.7	$14.9	$11.4	$173.9	$4.8
$1.0	$.5	$1.5	n.s.	$1.7	$.6	$.1	$.1	$2.1	$.04
$2.5	$.9	$8.2	$2.4	$6.0	$6.9	$.1	$.8	$.3	$.1
$7.0	....	$22.4	....	$15.9	....	$.5	....	$2.5	....
$.2	....	$6.4	....	$.5	....	$.1	....	$.9	....
$.3	....	$.4	....	....	$.6	....	....	....	....
$4.0	$1.4	$12.3	$3.8	$9.1	$8.2	$.1	$1.3	$1.4	$.3
15.0%	10.8%	17.2%	14.6%	12.2%	4.3%	3.2%	21.0%	9.8%	10.6%
9.5%	6.2%	9.5%	9.1%	6.5%	2.5%	.8%	11.0%	.8%	5.4%
14.2%	9.0%	14.4%	17.0%	13.0%	11.2%	1.5%	19.9%	2.3%	8.5%
38.38	....	37.40	....	30.00	....	6.10	....	2.80	....
$2.94	$1.90	$3.25	$2.66	$2.36	$4.89	$.30	$1.59	$.41	$.32
$32	$19	$40	$22	$26	$32	$9	$12	$5	$4
$1.60	$1.50	$2.25	$1.20	$1.45	$2.40	$.12½	$.85	Nil	$.20
5.0%	7.9%	5.6%	5.5%	5.6%	7.5%	1.4%	7.1%	....	5.0%
10.8	10.0	12.3	8.4	11.0	6.5	30.0	7.5	12.2	12.5
12/31/48	12/31/48	12/31/48	6/30/48	12/31/48	6/30/48	6/30/48	12/31/48	12/31/48	12/31/48
$11.9	$5.5	$14.1	$2.9	$19.0	$13.2	$2.0	$.5	$16.0	$.7
$8.9	$3.0	$35.7	$12.7	$26.7	$59.4	$3.0	$2.2	$39.0	$.9
$3.2	$1.5	$13.5	$3.5	$12.3	$24.0	$1.1	$1.9	$8.4	$.6
$23.9	$10.0	$63.3	$19.7	$58.6	$96.7	$6.2	$4.7	$63.4	$2.2
$2.1	$2.8	$18.6	$4.7	$13.5	$29.0	$1.2	$1.6	$16.8	$.4
$21.8	$7.2	$44.7	$15.0	$45.1	$67.7	$5.0	$3.1	$46.6	$1.8
$12.1	$3.4	$27.1	$5.9	$23.0	$7.4	$1.8	$2.9	$19.9	$.9
$40.8	$14.7	$107.6	$26.9	$58.6	$107.5	$9.1	$8.0	$86.1	$3.4
$14.42	$13.01	$12.84	$14.71	$14.48	$37.86	$14.01	$6.70	$11.03	$3.63
$3.45	$7.50	$4.80	$10.60	$10.40	$31.00	$6.80	$2.50	$4.70	$2.20
$8.60	$7.40	$3.70	$2.05	$4.90	$7.80	$5.20	....	$4.60	....
12.0	3.5	3.4	4.2	4.3	3.3	5.0	2.8	3.8	5.6
19.6%	13.2%	26.6%	30.5%	19.1%	17.0%	20.0%	18.8%	22.5%	18.0%
37.0%	30.0%	56.5%	64.2%	45.6%	62.0%	48.0%	46.0%	61.3%	40.0%
5.9%	7.7%	3.9%	....	5.2%	5.2%	3.7%	3.1%	5.2%	2.7%

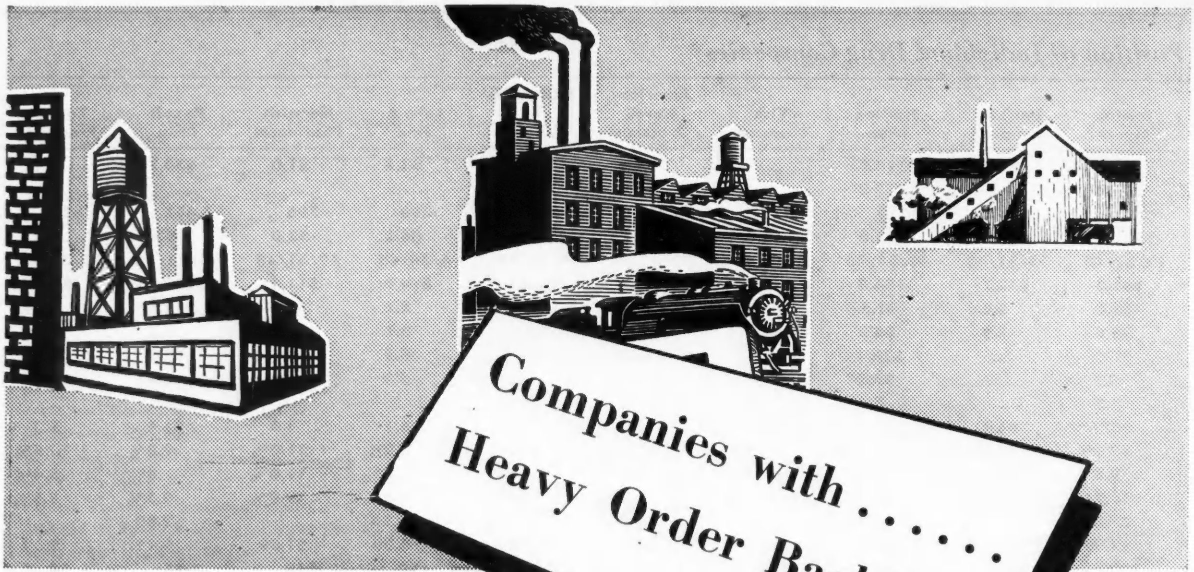
(b)—After deducting senior obligations.
n.s.—Not stated.

the last ten years, total sales have expanded by about 400%, with net earnings climbing to $9.1 million in 1949 for a more moderate percentage gain of about 115%. For the last 24 years, operations have been consistently profitable and dividends have been paid without interruption.

As one of the leading manufacturers of ethical drugs, American Home Products has become strongly established with the medical profession, and its ample laboratories have been the source of many important discoveries and improvements, especially in the field of hormones and antibiotic therapy. Research activities are also responsible for the introduction of numerous new proprietaries and packaged foods. Operations in the food division, though, make the company somewhat vulnerable to occasional inventory losses, as shown by charge-offs of $2.6 million in this division last year, largely induced by the substitution of glass packed baby foods for tin ones. Additionally, the management faced a period when store buyers are cautious as to inventory accumulations, a factor that may affect food sales. On the other hand, over-all volume in the first two months of 1949 rose about 6% over the same period in 1948, evidencing strong demand for drugs. As to prospective dividends in the current year, the conservative 10 cents monthly dividend is well assured and a liberal year-end extra should be expected, at least equal to the 25 cents per share extra paid in December, 1948. An exceptionally sound financial position strengthens this surmise.

Lambert Fights Competition

A manufacturer of proprietaries such as Lambert Company has a current problem of intensified competition on its hands. For many years this concern leaned heavily on production of Listerine Antiseptic, toothpaste and powder, shaving cream and cough drops, supplemented by Jewelite toilet brushes, combs and various plastic items. Sales reached a peak of $30.9 million in 1945 but since have declined consistently to $22.7 million in 1948, $4 million lower than the previous year. Despite the volume dip last year, net earnings advanced to $1.90 per share form a (*Please turn to page* 92)



Companies with...... Heavy Order Backlogs

By J. C. CLIFFORD

In attempting to appraise operating potentials of an enterprise under the manifold uncertainties characteristic of 1949, so many "ifs" color the picture that it is often difficult to reach clear-cut conclusions. In some respects, however, reported order backlogs at the end of 1948 furnish worthwhile clues in appraising corporate progress in the current year.

Not a great number of concerns reveal the amount of unfilled orders on their books, either for competitive reasons or because, where turnover is relatively rapid, the figures carry little significance. Main interest in the subject rests with important producers of durables, and some managements in this field commendably enlighten their shareholders as to backlogs; with proper qualifications, these often provide indications as to sales expectancies for a good many months ahead. But even here the relation of backlogs to annual volume counts more than their aggregate amount, while of still greater significance is the element of dependability. Utilization of expanded facilities at a time when incoming new orders are slowing up could rapidly diminish the store of unfilled orders on the books. Besides this, the character of unfilled orders, that is to say whether they are really firm orders or subject to cancellation, becomes a transcendent factor.

While the most desirable kind of heavy backlogs does not necessarily assure stable earnings for a given industry or its components, it does provide a substantial cushion against the impact of lower overall sales. Since prices of most manufacturers seem certain to decline somewhat in 1949 and unit output of many will also contract, those with sizable unfilled orders on hand stand a better chance of coping with breakeven point problems. This is especially true because of heightened competition that promises to expand selling costs fast in the current year. In other words business booked but not completed last year or early in 1949 should establish wider margins than thereafter, since business has now entered a period when expensive sales forces must cover the country in an effort to sign up increasing price-conscious customers.

Under conditions prevailing in 1948, when numerous producers of durables had piled up backlogs almost without solicitation and incoming new orders were also flowing in at a record rate, those concerns with gradually completed expansion programs managed to achieve all-time peak shipments. In this process, though, unfilled orders of many tended to evaporate or at least to shrink considerably. On balance it looks as if backlogs in the durables division may have shrunken about 20% in the course of the year, but many of them at the beginning of 1949 were still so substantial as to brighten decidedly the outlook for the current year.

Recent Trends

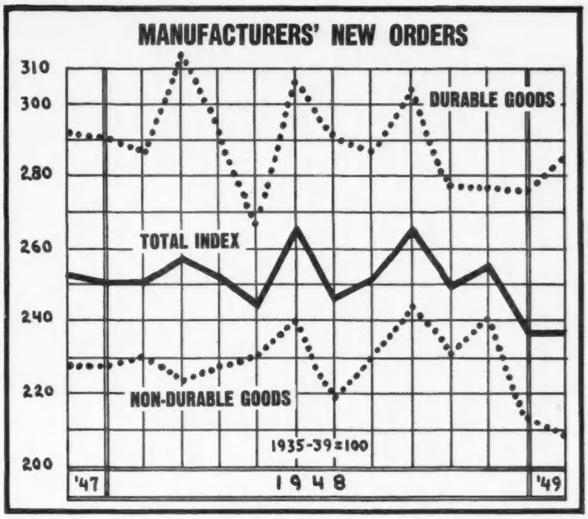
The trend was variously marked by declining orders for lighter kinds of machinery and tools, fairly steady backlogs for heavy industrial and electrical machinery, and a sharp advance in accumulated orders for aircraft and related parts, as well as for shipbuilding. Manufacturers of popular automobiles claim still heavy backlogs but refrain from citing definite figures, and their orders generally are so independable that they carry little weight.

In order to make our discussion more pertinent, we present figures revealing the latest reported backlogs of a number of well-known manufacturers of durable goods. By matching unfilled orders against annual sales, it is possible to establish at least an approximate idea of how long they are apt to sustain volume. Conclusions reached in this respect will naturally have a bearing on earnings and dividend potentials, as well as on current share valuations. We accordingly have included in our tables data which should make these comparisons more readily understood.

Order backlogs of machinery manufacturers have become quite spotty, but those involving large electrical equipment, boilers, pumps and heavy machines generally remain substantial enough to furnish an encouraging prop to operations in 1949. Many of these items, if not most, are made to strict specifications, require many months to manufacture, and once started are not exposed to the threat of cancellation. Their basic high cost tends to concentrate the origin of orders largely on giant utilities and industrial concerns not likely to vary their expansion policies because of recessionary influences. Indications are strong that the utilities still plan outlays of more than $6 billion for additional facilities in the next few years, and the leading oil and natural gas concerns have far from completed their multi-billion postwar programs.

Farm Equipment — Electrical Industry

For these reasons backlogs of certain manufacturers that specialize in heavy equipment assume significance. Take Allis Chalmers, for example, about half of whose activities are in this field, although a buyers' market has appeared for agricultural equipment, its other important division. Reported backlog orders of $148.3 million on December 31 were the equivalent of about 43% of last year's sales. While it is impossible to break down the figure, the management reports that at the year-end unfilled orders for machinery were only slightly below a year earlier. Westinghouse Electric Corporation at the beginning of 1949 had an order backlog of $648.8 million, some $26 million less than at the start of 1948 but still equal to about eight months' shipments at last year's rate. Such a showing lends confidence to the outlook for well sustained sales in the current year, though reduced prices for some appliances and diminishing demand for others may be an adverse factor. So many of



Westinghouse products are of the heavy type or still in relatively short supply that a very satisfactory year on the whole can be anticipated.

Worthington Pump & Machinery Corporation achieved record sales of $92 million last year, due to heavy demand from both domestic and foreign sources. Despite this large output, an estimated order backlog of around $60 million at the year-end indicates that operations in 1949 are likely to continue at a high level. Demand stemming from the oil, chemical, food processing and utilities industries has apparently been far from satisfied. While the management now has somewhat fewer unfilled orders than a year earlier, it sees an advantage in being able to step up deliveries. This in turn should tend to stabilize margins as well as net earnings, and enhances prospects (*Please turn to page* 100)

Pertinent Financial Statistics

	Order Backlog* ($ mill.)	Net Sales ($ mil.) 1948	1947	Net Per Share 1948	1947	Div. 1948	Div. Yield	Price-Earnings Ratio	Recent Price	Price Range 1949
Allis-Chalmers	$148.3	$328.1	$211.9	$5.67	$1.69	$1.60	5.7%	5.0	$28	28¾-25⅛
American Car & Foundry	215.0	151.6 g	96.1 g	3.47	5.26	3.00	10.7	8.1	28	33½-27
American Locomotive	105.0	143.9	110.5	2.30	1.70	1.40	8.7	7.0	16	18⅞-15⅛
Babcock & Wilcox	158.8	149.5	105.8	15.63	10.06	5.00 k	9.4	3.4	53	55¾-47½
Baldwin Locomotive	109.3	126.4	94.9	1.26	1.33	1.00	8.3	9.5	12	12⅝-10⅛
Bethlehem Steel	671.0	1,312.6	1,032.3	9.36	4.98	2.40	7.5	3.4	32	33⅞-30⅜
Bendix Aviation	157.0	162.5	141.6	5.33	2.48 b	3.00	8.8	6.3	34	34⅝-31⅜
Blaw-Knox	39.0	68.7	55.6	2.87	2.19	1.25	8.9	4.9	14	14⅜-12¼
Boeing Airplane	445.7	127.3	22.6	1.59	def.41	1.00	4.0	15.7	25	24⅞-20
Douglas Aircraft	233.0	118.6	128.4	9.72	def3.57	5.00	8.1	6.4	62	61⅛-48⅝
Emerson Electric Mfg.	45.0	28.4	23.2	3.02	2.89	1.00	8.3	4.0	12	13⅝-10½
Foster Wheeler	93.4	76.4	35.6	11.95	3.30	1.00	4.0	2.1	25	26⅜-19¼
Link Belt	49.7	106.0	87.3	14.37	8.68	5.50	8.6	4.5	64	66½-58
Newport News Shipbuilding	212.7	81.7	61.2	6.01 e	4.44 e	4.00	12.5	5.3	32	32¾-28⅜
Otis Elevator	98.6	33.6	25.7	5.85	3.76	2.00	6.5	5.3	31	31⅝-29
Sperry Corporation	162.0	120.8	75.0	4.32	2.79	2.00	7.1	6.5	28	28¾-24⅝
United Aircraft	335.0	207.9	208.3	3.06	3.21	2.00	7.7	8.7	26	26⅞-25⅝
U. S. Pipe & Foundry	(a)	45.5	32.8	8.14	6.02	2.80	6.1	5.6	46	49½-43
Westinghouse Electric	648.8	970.7	821.3	3.88	3.59	1.25	5.4	5.9	23	27 -22½
Worthington Pump	60.0 E	92.0	84.9	5.17	5.86	1.25	8.3	2.9	15	15⅞-12½

E—Estimated.
*—Latest available.
a—Equal to 10 months' production.
b—Before extraordinary reserve adjustments; after, earnings were $7.58.
e—Before special charges; after, earnings were $9.76 and $6.45 respectively.
g—Nine fiscal months ending January 1949 and 1948 respectively.
k—Plus stock.

The "FACTS OF LIFE" —ABOUT STOCKS SELLING UNDER NET QUICK ASSETS

★

By PHILLIP DOBBS

The relation of share price to asset values far too often is viewed by inexperienced investors as of real significance from the standpoint of market potentials of a stock. Narrowing the yardstick to measure quotations in comparison with net quick assets per share merely compounds a fallacy as a rule. Yet time and again, lists of stocks are presented to the public as "bargains," merely because they happen to be selling below apparent liquidating values even if plants and equipment were given away. At intervals in the past we have discussed the pros and cons of this subject, and because of its recent resurgence it seems timely to review it.

Popular thinking has been so thoroughly trained in the art of appraising merchandise values that it easily falls into the error of applying the same cut and dried rules in acquiring equities. But basement bargain formulae, logical as they may appear to the unsophisticated, are unwise to lean upon in appraising investments, either for speculative purposes or for steady income. It is one thing to buy a necktie because you like blue and the price tag seems to suggest a loss to the seller. But in purchasing a stock investment, the actual cash originally subscribed by, or accrued to predecessor holders may deserve hardly more significance than the color of the certificate. Rather it is the current quotation that must be weighed in relation to certain more appropriate fundamentals, including management, record, yield, growth potentials, cyclical influences, working capital, earnings and overall outlook. Any one of these elements should influence investment decisions more than asset values do. In combination they constitute a transcendent factor, one that no mere formula can possibly express.

The frequent assertion that a stockholder actually owns a proportionate share in a corporation has no legal foundation, except indirectly. Title to assets of every description is vested in the corporate enterprise only. The shareholder has a voice in electing the directorate, to be sure, and they in turn appoint the officers, but the only distributions of cash from earnings or in the event of liquidation he can ever hope for or claim, will depend upon their decisions or that of a receiver, within legal boundaries. Hence to assume that in purchasing stock, an actual share of any assets is acquired is an illusion. The relation of price to net quick asset values (after deducting all debts and preferred stock) accordingly loses much of its significance.

Granting the truth of our assertions, it is obvious that the sole value of net liquid assets rests in their potential benefit to the future progress of the corporation rather than to the individual stockholder in any direct manner. The main thing to consider is the relation of current assets to current liabilities, potentials for their shrinkage by transformation into new plants and equipment, and above all, the ability of any given management to keep operations on a consistently profitable basis. By and large, share values inevitably are determined by earnings and dividends over the long term, factors which in turn generally hinge on how assets are utilized rather than how big they are. It is worthy of thought that while leading accountants carefully estimate the percentage of earnings on net worth, similar treatment is never accorded to the relation of dividends to net assets. Apparently this is considered beyond the pale, and quite properly so. This points to lack of logic in attempting to wed share prices and book values.

Looking at Both Sides

What a slim foundation book values have in appraising stock values—and this holds true in considering net quick assets as well, is clearly shown by looking at both sides of the picture. Millions of adroit investment students are continuously weighing the intrinsic merits of outstanding equities, and it is their composite opinion that largely determines prices. In the appended table we list 20 well-known concerns whose equities are quoted below their net quick assets values, in most cases for reasons not readily clarified. On the other hand, it would be much easier to select a list of other stocks selling far above their total book values. To hold that any of these latter equities are overpriced under current conditions would arouse loud disclaimers, as in the case of Eastman Kodak for example, selling at around 46 or double its book value. In contrast, we find a sound stock like United States Steel quoted at about 72 although its book value is over 150. If this well-known factor influenced share appraisals significantly, Big Steel would soar but it does not do so.

It is well to weigh these considerations before yielding to the lure of apparent bargains offered by

the shares on our list, all of which are currently quoted below net quick assets. It is, however, interesting to study some of these situations in an effort to uncover theoretical reasons for their current price status. To attribute definite explanations for price behavior on this basis would be a difficult task in many instances.

A Word of Caution

At the outset we again caution our readers against the belief that ample liquid assets must necessarily imply forthcoming generous returns to a shareholder who figures he has purchased them at a discount. His chances of exceptionally favorable treatment from this seeming advantage are remote. Much has also been heard of late that "based on current depressed prices for common stocks, American Industry is worth more dead than alive." While this assertion has deservedly awakened serious concern over an increasing scarcity of risk capital, it is obvious that there would be no takers for the "corpse" except the Federal Government, and on its own terms at that. Should an isolated business be liquidated, a very infrequent occurrence among large concerns, history proves that creditors and lawyers between them get practically all of the pie or a reorganization squeezes out most of the juice. Hope of recapturing a stock investment by the liquidation route is merely star gazing; moreover, all our large concerns are in business to stay.

Turning to our table, suppose we discuss the shares of Colt's Manufacturing Company from the angle of their net quick asset values. This century-old producer of firearms, and latterly dishwashing machines, molded plastics, etc., is in an eminently liquid financial position, with current assets exceeding current liabilities by a margin of about 20 to 1, and with no funded debt or preferred stock. Yet the recent price of 38 for its common shares contrasts with net quick assets of $51.03 and a total book value of $66.77 per share. The answer to this discrepancy undoubtedly lies in the rather spotty earnings in prewar, and either operating deficits or negligible profits in more recent years. As it is, current ample cash resources are chiefly the result of substantial tax refunds in recent years. Although stockholders' equity in the business at the end of 1948 was slightly more than $13 million, net operating income amounted to only $6,117 for the year, though income from investments swelled total net to $110,508, exclusive of extraordinary losses and expenses. Sizable carryover tax credits from 1946 and 1947 may keep 1949 results in the black but no dividends are being paid. Until the company can earn an adequate return on its capital, investors naturally are prone to disregard the amount of assets at its disposal.

Another Example: Bigelow-Sanford

Shareholders in Bigelow-Sanford Carpet Company probably wonder why their stock is quoted around 29, $2.69 below its net quick asset value and some $19 below its full book value. This leading manufacturer in its field has enjoyed record prosperity in the last two years, earning $8.11 per share in 1948, and advanced its dividend rate and declared a year-end extra. Had not inventories at the end of last year been carried on the books at $10 million below their replacement cost, net quick assets per share would have been about $16 more than shown. Considering everything, these shares appear reasonably priced, for last year's dividends could be cut in half and yet provide a yield of 4.6% at the present price level of the shares. But analysts are aware that a return to real competitive conditions is apt to reduce earnings somewhat, for last year they were running about double or triple their longer term average. This surmise (*Please turn to page 92*)

• *Selected Shares Selling Near or Below Net Quick Asset Values**

	Per Share — Recent Price	Net Quick Assets	Book Value	Average Earnings 1938-41	Average Earnings 1942-45	Net Per Share 1947	Net Per Share 1948	Div. 1948	Div. Yield	Price-Earnings Ratio	Range 1948-49
Bigelow-Sanford	$29	$31.69	$48.37	$1.67	$1.38	$5.32	$8.11	$2.70	9.3%	3.6	37¼-26¾
Brunswick-Balke-Collender	20	21.48	40.42	3.87	2.67	3.21	5.04	2.50	12.5	4.0	23½-17¾
Bullard	14	17.96	29.03	3.57	3.41	def.31	1.58	.50	3.6	8.8	21⅞-12
Cincinnati Milling Machine	24	30.38	43.28	4.84	4.43	1.63	2.70	1.40	5.8	8.9	27 -19½
Colt's Mfg.	38	51.03	66.77	10.40	def.26	.76	.56	Nil	......	68.0	40⅞-29½
Distillers Corp.-Seagrams	14	15.84	20.93	.81	1.24	4.88	6.24	.70	5.0	2.2	19¾-13
Endicott-Johnson	33	43.92	65.00	.78	1.15	3.27	4.11	2.10	6.4	8.0	34 -29½
General Cigar	19	36.87	45.28	1.97	1.75	2.64	2.44	1.50	7.9	7.8	24 -17½
Goodall-Sanford	16	20.40	36.15	a	a	4.61	3.52	1.50	9.4	4.5	24⅜-14⅜
Grumman Aircraft	19	20.83	25.87	1.00	3.77	2.29	2.39	2.00	10.5	7.9	25¾-15¼
Lee Rubber & Tire	41	53.95	72.42	4.51	5.06	9.47	7.87	3.50	8.5	5.2	47 -35
Montgomery Ward	55	60.41	69.50	3.99	3.79	8.86	10.28	3.00	5.4	5.4	65 -47¼
National Acme	23	29.79	34.53	3.05	3.97	4.41	3.01	2.00	8.7	7.6	29 -18
Pacific Mills	30	38.17	67.21	.38	2.65	9.59	11.39	3.50 k	11.7	2.7	44¼-29
Pullman	32	47.02	58.76	1.73	3.42	2.38	3.18	2.00	6.3	10.8	53 -30⅛
Schenley Industries	27	31.17	48.30	1.23	3.60	7.46	8.20	2.00	7.4	3.3	35⅝-25½
Smith & Corona	15	15.49	31.82	1.69	3.05	5.57	4.77	2.00	13.4	3.1	26 -15
Stewart-Warner	13	13.70	21.70	.67	1.41	1.88	2.44	1.50	11.6	5.3	16⅜-12
Walker (Hiram)-G. & W.	22	22.37	35.03	1.94	2.69	6.54	8.62	2.00	9.1	2.5	27⅜-18⅝
Young Spring & Wire	19	19.95	37.55	.84	2.04	3.52	7.41	1.50	7.9	2.6	24 -15¾

*—After deducting senior obligations; figures adjusted for stock-splits. a—No comparable figures available. k—Plus stock.

FOR

PROFIT AND INCOME

Time

Current market action gives neither bulls nor bears much to cheer about. But if the performance does not soon become significantly worse than it has been in the backing and filling of recent weeks, time and seasonal business improvements will be working in favor of higher stock prices. The nearer you get to late spring, the less becomes the risk of a downswing. In many more years than not, average stock prices have moved up during some material portion of the late spring or summer season. This seasonal "summer rise" started earlier than usual in each of the past two years—March in 1948 and May in 1947. Although far from guaranteed, there is still plenty of time for it. On the long back record, May has usually been a better month for the market than April, June a better month than May.

Speculation

Measured from the 1946 bull-market high, as well as from the intermediate recovery high of last summer, low-priced stocks have fared much worse than the investment-quality issues. This relationship was reversed, at least for the time being, on the margin-reduction news, with low-priced stocks, on an average, rallying sharply percentagewise and with the high-priced stock index sluggish. In the face of a moderate general market recession since the margin-change rally, the low-priced stock index has now shown up fairly well for another week. This still slight and tentative indication of a revival of the speculative instinct—the willingness to take risks—could be of more than transient significance if it should continue for a time. On the whole, speculative stocks are more "sold out" than others and therefore in a position to pace a general market rally. But they will certainly be good sales, in most cases, on an intermediate recovery.

Pay-Off

The investment of some American oil companies in the lush fields of the mid-East has begun to pay off in a big way. Thus Standard Oil of California last year received about $19.3 million (net after taxes) in dividends from associated foreign companies, the great bulk of it from Arabian American Oil Company operating in Saudi, Arabia. This was equal to almost $1.50 a share of S. O. of Cal. stock, and to roughly 37% of the $4 dividend which it paid. In addition, the company's interest in the undistributed net profit of Arabian American for 1948 was $43.8 million. In dividends alone, the return on the net investment will be very rich. The net investment in foreign affiliates is only some $75 million or less than a tenth of total assets. Ownership of Arabian American, Bahrein Petroleum and their associated pipe line and tanker companies has been 50-50 between Standard of California and Texas Company. On consummation of a contracted deal to bring Standard Oil (New Jersey) and Socony-Vacuum into the picture, it will be 30% each for the first three and 10% for

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
Aluminum Co. of America	Year Dec. 31	$7.66	$5.64
Barber Oil	Year Dec. 31	4.34	2.48
Briggs Mfg.	Year Dec. 31	5.40	3.86
Budd Co.	Year Dec. 31	2.48	.97
Eastern Air Lines	Year Dec. 31	.98	.53
Fruehauf Trailer	Year Dec. 31	4.16	3.11
Lily Tulip Corp.	Year Dec. 31	7.31	5.06
Lone Star Cement	Year Dec. 31	8.18	6.68
Pullman, Inc.	Year Dec. 31	3.18	2.38
Sears, Roebuck	Year Jan. 31	5.80*	4.56*

*1949 and 1948 respectively.

Socony. A huge expansion of Arabian American is planned, but will be almost entirely self-financing although guaranteed by the American companies. The potential Russian threat to the mid-East is of course something to consider. But for the time being, it seems more apparent than real.

Bottoms

The peaks in different groups of stocks and different lines of business have been widely scattered. Some stocks topped out in 1945, although the bull-market high in the averages was in the late spring of 1946. Some lines of business turned sour as early as late 1947 and others in the forepart of 1948, whereas the Reserve Board production index reached its peak in October-November, 1948. Some stocks have been in major bear markets while the Dow industrial average has held in its broad trading range since October of 1946. There is every reason to think that the bear-market bottoms will also be widely scattered and that many of them have been seen. There seems to be a pretty good chance that this is so of such groups as aircraft manufacturing, air lines, cement stocks, glass containers, drugs, finance companies, gold mining, tobacco products, natural gas and electric utilities. It may be added that at the lows heretofore seen, good oils, retail trade stocks and tire stocks could be considered pretty thoroughly deflated.

Yields

At the February lows, the average dividend yield on representative industrial stocks exceeded that on high-grade bonds by the widest margin ever seen, with the single exception of the bottom portion of the 1939-1942 bear market. The relationship is not significantly different now, for the market has risen very little since February. Yield factors and the belief that well established dividend rates are in little or no danger explain why good-grade common stocks have shown no tendency to nose-dive in the face of business recession news. On many stocks, the 1948 dividend payments could be readily maintained even through a general deflation more severe than there is any need to allow for, yet their current yields are liberal. A partial list includes American Chicle, First National Stores, Jewel Tea, American Tobacco, U. S. Tobacco, Abbott Laboratories, Sterling Drug, National Dairy Products and Union Oil of California (or almost any other top-grade oil).

Groups

The selective divergences within the market indicate reduced demand for stocks which appear subject to marked deflation of earnings sooner or later, regardless of how good present earnings are. That is so of automotive issues, steels, most building stocks, farm and rail equipments, household equipment and furnishings, machinery in general, and coal, to name only the more important. On the other hand, increasing preference is indicated for (1) stocks in stable consumption-goods lines such as drugs, tobacco and grocery chains; (2) beneficiaries of public spending such as aircraft and cement stocks; (3) stocks of companies which will gain on balance (through lower costs) from commodity price deflation, such as utilities, soft drinks and low-price candy makers; and (4) stocks in industries which have already gone through most or all of their post-war adjustment, such as air lines and motion pictures. In the case of many individual stocks there are, of course, other reasons for better-than-average or worse-than-average action which cannot be so generally or briefly classified. Probably the rewards to be had from the market this year will be determined more by selection of stocks than by what the Dow industrial average does.

Wages

Wage boosts without increased productivity are inflationary under conditions when they can be passed on in higher prices, but deflationary when they cannot be passed on. The latter is so in most lines now—and Congress knows it. Hence there is an increasing chance either that a 75-cent minimum wage law will not be adopted or that there will be exemptions which largely soften its impact in low-wage lines. Of the latter, variety-store chains are the most important in investment interest. Assuming that the threat to them inherent in the minimum-wage proposal has been ended or substantially modified, stocks like Woolworth, Kress, Kresge, Grant, Green, McCrory and Newberry probably are somewhat underpriced.

Cups

Sales of paper cups have grown greatly over the years, and are highly depression-resistant. The two leading makers are Lily-Tulip Cup and Dixie Cup. Volume of the former was slightly higher in the depression year 1938 than in 1937; of the latter, only nominally lower. These companies will gain from a better supply and lower costs of paper, improving margins. Earnings this year should hold close to last year's record figures of $7.31 a share for Lily-Tulip and $6.70 for Dixie Cup. Dividends of $1.62½ for the former and $1.00 for the latter look low relative to earning power, and subject to eventual increase. Dixie is priced now at 28, Lily-Tulip at 40. Each has semi-speculative merit.

Trouble

Between higher costs and lower advertising revenue, most publishing concerns appear to face something of a squeeze. More-

(*Continued on page* 98)

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
American Broadcasting Company	Year Dec. 31	$ .28	$1.28
American Safety Razor	Year Dec. 31	.47	.80
Anaconda Wire & Cable	Year Dec. 31	8.31	10.05
Botany Mills	Year Dec. 31	5.87	6.03
Dr. Pepper	Year Dec. 31	.98	1.49
Federal Motor Truck	Year Dec. 31	.27	3.11
Hercules Motors	Year Dec. 31	3.71	3.87
Horn & Hardart	Year Dec. 31	2.71	3.02
Life Savers	Year Dec. 31	3.68	3.84
Mead Corp.	Year Dec. 31	6.36	7.33

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Wm. Wrigley Jr. Company

"As a subscriber to your Magazine and an avid reader of its contents, I am writing for information.

"Let me inform you that I am a widow and have had not quite a year in having the responsibility of administrating my husband's investments. I have been assured that his investments were conservative and therefore want to know whether you regard Wm. Wrigley Jr. Company stock in that category."

W. F., Bernardsville, New Jersey

Wm. Wrigley Jr. Company and its wholly owned subsidiary companies at December 31, 1948 showed net sales for the year of $61,440,166 and net earnings per share of $5.82, compared with 1947 net sales of $50,186,953 and net profit per share of $4.31. Regular 25 cent monthly dividend payments were made last year and an extra of 50 cents was paid on January 2, 1948, out of 1947 earnings and an extra of 50 cents was paid on December 1, 1948 out of current 1948 earnings.

The improvement in net earnings for 1948 was due primarily to the substantial increase in sales. Sales promotion expenditures were somewhat higher in 1948 than in 1947, but substantially lower than amounts expended in pre-war years on a much smaller volume of business. Raw material prices were somewhat lower, resulting in a slightly lower cost per box of chewing gum manufactured.

Earnings of foreign subsidiaries included in the consolidated total amounted to $1,424,189, or 12.4% of the total earnings, an increase of $664,354 over the year 1947. Cash dividends received from these companies in 1948 amounted to $873,701.

Net addition to property accounts for improvement of plants and facilities for the year 1948 totalled $4,097,260. Over the past three years, approximately $9,200,000 has been invested for modernization, replacement and to some extent, expansion of plant facilities to meet current needs.

Sale of Wrigley brand chewing gum for the first two months of 1949 ran slightly higher than the average monthly rate of sales for 1948. There were increasing signs indicating that before long it will be necessary to further expand selling program in order to maintain the sales trend of the past several years.

Net income has steadily increased in the past three years and dividend payments have been good and therefore, this stock can be regarded as a conservative issue.

Greyhound Corporation

"Please report on operating revenues, net income and dividends of Greyhound Corporation." E. J., Key West, Florida

The Greyhound Corporation showed consolidated net income for 1948 of $16,127,753 after all charges including provision for Federal and State income taxes and the portion of net income applicable to minority interests in subsidiaries. Such net income is equivalent after preferred stock dividend requirements to $1.70 a share on 9,330,090 shares of common stock outstanding at the end of 1948 and compared with net income for the previous year of $17,243,563, equivalent on the same basis to $1.82 a common share.

During 1948, for the first time Greyhound's traffic load surpassed ten billion passenger miles, and more than 500 million bus miles of service.

Total operating revenues for the year reached a new high record total of $192,544,172, an increase of 9% over the total of $177,355,397 for the previous year. This increase was chiefly the result of the larger volume of traffic handled in 1948, but rate adjustments which became effective in the latter part of the year also contributed a part of the gain. Revenues from newly acquired companies were negligible in amount.

Total bus miles operated showed a gain of 7% over 1947. Because of the sharp increase of labor and material costs, operating expenses last year increased more rapidly than operating revenues, amounting to 32.3 cents per bus mile against 30.8 cents per mile in 1947. As a result net earnings were slightly below those of 1947.

Some success was achieved last year in securing approval for the upward adjustment of certain fares to offset in part a steady rise in operating expenses. This program of adjustment and equalization is expected to continue in 1949.

As of December 31, 1948, the Greyhound Lines owned a total of 5837 buses compared with 5365 at the end of the preceding year.

The greatly increased volume of traffic the Greyhound Lines are now handling makes large capital expenditures necessary for terminals, garages, and other operating facilities. In view of the present high level of costs, however, only the most necessary facilities are being built. Term-

inals and garages for which construction has been authorized, including the Chicago Terminal Building, will require a total expenditure of $17 million to be spent during this and later years.

Dividends amounted to $1.00 per share last year and 25 cents was paid in the first quarter of the current year.

Admiral Corporation

"Has Admiral Corporation shown evidence of growth in recent years and what products does the company manufacture?" R. M., New Haven, Conn.

Admiral Corporation earned $3,782,825, after all charges for the fiscal year ended December 31, 1948 as compared with $2,248,186 for the previous fiscal year.

Per share earnings were $3.78 on the one million shares now outstanding as compared with $2.25 in 1947 on the equivalent number of shares, representing an increase of 68%.

Net sales amounted to $66,764,266, showing an increase of 39% over sales of $47,898,988 in 1947, and an increase of 85% over sales of $36,169,850 for the fiscal year ended December 31, 1946.

Net worth was $10,814,886 compared with $7,795,460 for 1947, an increase of 39%. For the third year in a row sales and earnings have exceeded the previous year's record. This reflects the policy of greater diversification and expansion upon which the corporation embarked in 1944.

Admiral Corporation manufactures television sets and accessories, radios, phonographs, radio-phonograph combinations, automatic record-changers, refrigerators, home freezers and electric ranges.

Dividends in 1948 amounted to 85 cents per share in cash and 11-1/9% in stock. A cash dividend of 20 cents was paid on March 31, 1949.

First quarter 1949 net sales amounted to $23,513,097 and net profit to $1,536,217 equal to $1.54 per share, compared with 1948 first quarter sales of $12,004,168 and net income of $530,410 or 53 cents per share.

Current year first quarter showed the second highest quarterly sales and earnings in Admiral's history, exceeded only by the last quarter of 1948.

Much of the increase must be attribued to the television division which in January introduced a complete new line of sets with prices based on increased mass production.

Minnesota Mining & Manufacturing Co.

"I know that Minnesota Mining & Manufacturing Co. has made remarkable progress in recent years but would like to know about company's present expansion program and recent earnings." L. D., Louisville, Kentucky

Total sales of the Minnesota Mining & Manufacturing Company, and its subsidiaries, manufacturers of Scotch tape, etc. were $108,246,410 for 1948, setting an all-time record.

Net income for the year amounted to $13,234,756 after providing $8,700,000 for Federal and State taxes.

In 1947 the gross was $93,437,137, and the net was $10,715,376. Last year's record showed an increase of 15.8% in sales, but the percentage of profit to sales was up less than 1%. Earnings per share of common stock for 1948 were $6.51, compared with $5.47 for the previous year. Dividends of $2.10 per share were paid on the common in 1948, and $4.00 on the preferred, first issued late in 1947.

During the year the company opened a new roofing granule plant at Corona, Calif., and purchased Lee Larson & Co., a nation-wide outdoor advertising company with headquarters in Waukesha, Wisconsin. The latter was merged with another 3M subsidiary, the National Advertising Company.

A former war plant was purchased in the summer of 1948, and is currently being remodeled and equipped for production. It is located in Bristol, Pa. Two new factories near Hastings, Minnesota are approaching completion. This group of new units makes up a substantial part of the company's $20 million expansion program.

At the end of the year the parent company had ten branch plants and eighteen branch offices and warehouses operating in fourteen states.

The subsidiary, The 3M Company makes pressure-sensitive adhesive tapes, coated abrasives, reflective materials, roofings granules, electrical tapes, industrial tapes, industrial adhesives, color pigments and chemicals and miscellaneous lines.

Company's intensive scientific research program is expected to develop new uses for present products and also introduce new lines.

Rheem Manufacturing Company

"With business in general becoming more competitive, as a stockholder of Rheem Manufacturing Company, I am interested in knowing what steps the company is taking to decrease costs of operations." A. L., New York, N. Y.

Net income of Rheem Manufacturing Company for 1948 amounted to $3,162,903, equal after preferred dividends to $3.04 per common share. This compares with 1947 earnings of $3,606,915, or $3.48 per common share.

Net sales last year were $58,744,097, of which 56% represented home comfort appliances and 44% steel shipping containers; 1947 net sales were $60,258,287. Working capital on December 31, 1948 was $11,091,708, as compared with $11,074,200 at the end of 1947. In anticipation of continued limitations on the supply of steel and the return of competitive selling, a broad program to streamline all phases of the company's operations was put into effect in May 1948. As part of this program, it was decided to close and offer for sale the Stockton Tool and Birmingham Plants. The first two were sold during the year. A substantial profit was realized which offset all costs incident to closing down and moving their activities to other plants.

The tangible benefits of this program of streamlining are already measurable and economies effected in 1948 indicate an annual saving in excess of $4 million. It is estimated that the closing of the Birmingham Plant will result in a further annual saving of $700,000. These estimates were computed before provision for Federal income taxes. Such retrenchments should put the company in a strong position to meet increased competition of a buyers' market.

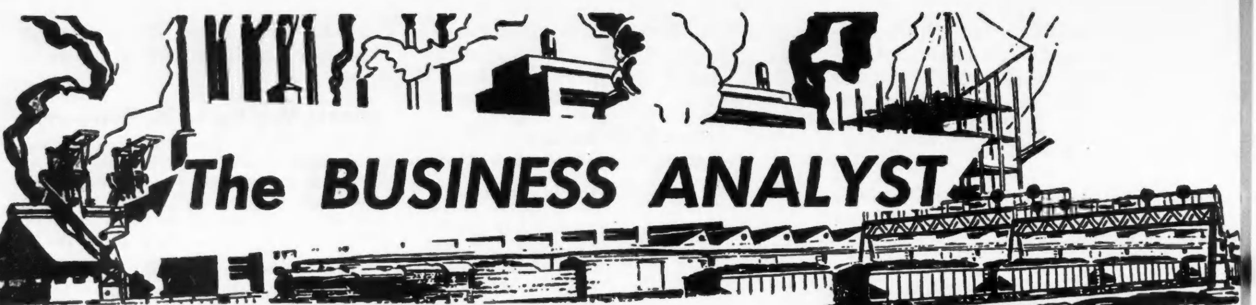
Dividend payments amounted to $1.60 per share in 1948 and regular 40 cent quarterly dividend was paid on March 15, 1949.

Clark Equipment Company

"As a subscriber to your valued magazine, I would like information on Clark Equipment Company." M.R., Rye, N.Y.

Clark Equipment Company manufactures motor truck and farm tractor components, industrial trucks and other transporta-

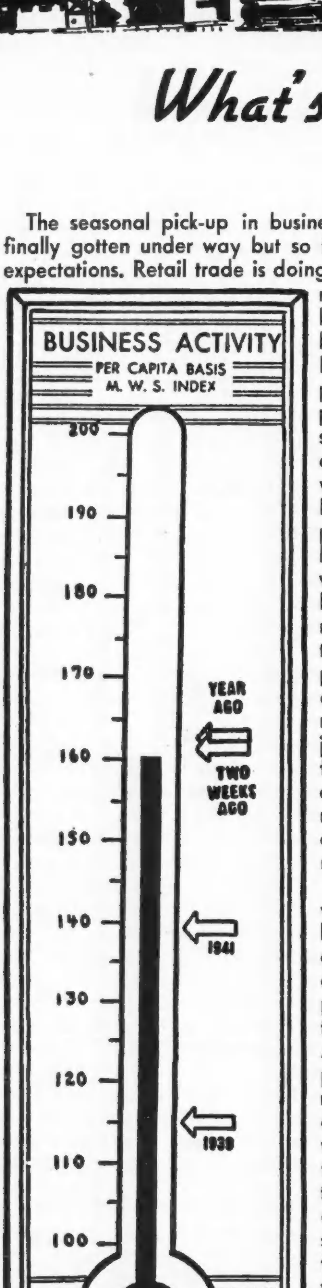
(Continued on page 96)



What's Ahead for Business?

By E. K. A.

The seasonal pick-up in business, anxiously awaited, has finally gotten under way but so far it's been falling behind expectations. Retail trade is doing better but retailers are by no means satisfied. They had looked for higher and better sustained volume. Now, they say, it all depends on the strength of post-Easter buying, and some are not too sanguine about the outlook. All of which goes to prove that business is still in a test period. The snap-back has been sluggish rather than vigorous and those who had hoped that it might mark the temporary end of the latest readjustment phase are likely to be disappointed. As it is, we cannot say whether it will be just a mild bulge, soon to flatten out again. If it turns out to be that and no more, it will doubtless have a damping effect on business sentiment.



This column, however, would not want to come to hasty conclusions. In our opinion there is still a good chance of real business improvement. Here is one of the more important reasons: Across the board, retail prices have lagged behind reductions in commodity and wholesale prices, and with people looking for better values and lower prices, this has naturally had an adverse effect on consumer spending. But now we have finally reached the stage where lower raw materials prices are filtering through to retail levels, as witness the flood of recent price cuts in virtually every field. This means that the price decline, particularly in industrial raw materials, has reached the point where it will make a real difference in business costs. Inventorywise this may hold its own threat to those who lacked caution but these are likely in the minority. What's more important is that costs and prices are finally coming down in earnest, speeding not only price stabilization that will inevitably follow the current downswing but also the day when business and consumer buying will again pick up. This point may be nearer than many think though it is admittedly difficult if not impossible to anticipate just when the low of the first cycle of postwar deflation will be reached. Some think we may not see it before the first quarter of next year. Others argue that it's probably closer at hand, perhaps as near as the third quarter of this year. Much will depend on the breadth and tempo of further price adjustment.

Washington, while it doesn't want the downturn to go very far, is in favor of getting it over as quickly as possible, thus would prefer that adjustment should be completed this year. If it drags out until 1950, the reasoning goes, it will be more painful, and this is also politically undesirable. Hence we may look for policies designed to ease remaining pressures and fostering further price declines.

Current Outlook Factors

Business activity over nearby months will hinge on such factors as the trend of steel industry activity; the degree of seasonal revival of building; the future course of capital expenditures by business; how retail trade will shape up and whether the automobile industry can hold to its current peak rate of production through summer.

Latest estimates of capital outlays are fairly reassuring. So are automotive prospects at least through spring. Steel demand may have passed its peak but there is no evidence of a marked drop in operations any time soon. Less reassuring is the outlook for building. The residential segment so far this year has been disappointing; unless it improves sharply this spring, there will be a wider and more general downturn later in the year. In the midst of a downtrend in building materials prices, would-be builders and house buyers are naturally hesitant. Many will want to be fairly well satisfied that the downswing in prices is petering out before they are ready to go ahead. In our estimation, the course of building activity will go far towards shaping the business climate in the months ahead. As pointed out, it all goes back to price trends—the key factor in today's situation.

How important it is, is shown by the precipitate drop in business loans during the last three months. Their reduction reflects not only the working down of inventories but also lower prices which cut into the dollar volume of business borrowing.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—Common stocks rally sharply for a day or two, with exceptional strength in low priced issues, upon announcement of reduced margin requirements: then revert to the now familiar pattern of aimless fluctuations. There were 16 new group highs, and only 2 new lows during the fortnight ended April 9. Corporate bonds and preferred stocks show little change on balance. Foreign government dollar bonds extended their gains, with Scandinavian issues still in the lead; but the upturn appeared to be losing momentum. Payments on Federal income taxes caused a sharp drop in demand deposits. To offset the resulting shrinkage in reserves the banks sold Government securities, while non-bank investors bought. A moderate contraction in commercial loans was more than offset by expansion in other loans, particularly to other banks. Insurance policy loans and surrenders are increasing. Policy loans in January were up 20% from the like month last year, with surrenders up 25%. Member banks in the New York Federal reserve district reported net earnings last year of only 7% on total capital accounts, against 8.1% the year before.

TRADE—With costs still rising and competition keener, department stores last year earned only 3.8 cents per dollar of sales, compared with 4.3 cents in 1947. Sales in the week ended April 2 jumped to 8% above last year. Improvement will continue for another fortnight: then slump for a week or two. February sales by wholesalers were 3% under the like month last year.

INDUSTRY Business activity continued to recede during the week ended April 2; but showed fractional improvement over the like date last year. Due mainly to continuing shortening of the work-week, unemployment was down, and employment up, a little in the four weeks ended March 13. Operating costs are being reduced by lower material prices and other economies. Construction activities still hold above last year.

COMMODITIES—Cotton and grains rally sharply in responses to Government proposal to guarantee small farms an even higher income; but hides, wool and metals decline.

—o—

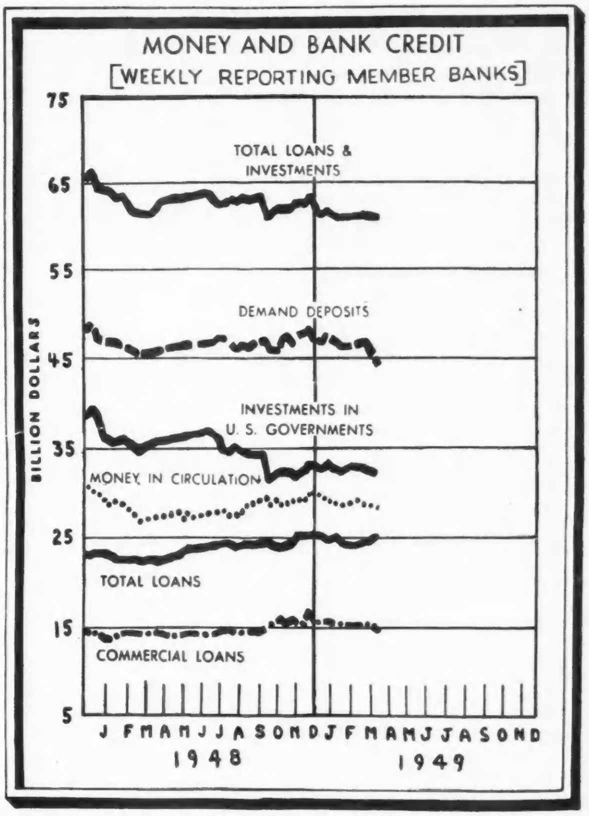
There is an old saying that what everyone expects doesn't happen. The very fact that business men and consumers are **Overcautious** now prevents the kind of overbuying that might lead to a severe depression. When people find in due time that prices have not collapsed, but merely settled down to a moderately lower level, deferred demand for both consumer and capital goods will begin to pick up again. There are no logical grounds for fearing repetition of the 1929-32 debacle, which was precipitated by financial excesses not present today.

* * *

There is certainly nothing panicky in the behavior of our **Business Activity** index which, despite its decline to a new low for the year during the fortnight ended April 2, was fractionally higher than a year ago when the coal miners' strike caused more plant shut-downs than this year's walk-out.

* * *

There was contraction of 53,000 in unemployment, and an expansion of 226,000 in the number at work in non-agricultural pursuits during the four weeks ended March 13. During the twelve months ended March 13, however, **Unemployment** rose 727,000 and the number at work in non-agricultural pursuits declined 61,000.



* * *

Instead of suspending operations, most business concerns have been meeting slackening demand for their products by instituting a **Shorter Work-Week.** The number of part-time workers in non-agricultural pursuits has increased 1.8 million in the past 12 months; though only 69,000 in the four weeks ended March 13. But a shorter work-week means smaller take-home pay. This, and the H. C. L., have led an abnormal proportion of the population to seek employment. A year ago only 57% of the people of working age in this country were employed or seeking employment. During the past 12 months, virtually all of the 1.17 increase in our population of working age has joined the labor force. The sharp rise in unemployment is thus due less to declining business than to an exceptional upsurge in the desire to work.

* * *

Long-awaited price reductions in non-farm products have at last appeared and industrial buyers, following the lead of consumers, are now waiting on the side lines to see how far the decline will go. Meanwhile, inventory profits are giving way to inventory losses. But before too long, buyers will have to re-enter the market to replenish stocks. Then they will find **Costs** much reduced, not only by lower material prices but also by economies which returning competition has forced them to devise in their own menage.

* * *

The **Movie Industry,** for example, is now demonstrating

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	Mar.	1.24	1.16	1.11	1.55
Cumulative from mid-1940	Mar.	379.5	378.3	366.0	13.8
FEDERAL GROSS DEBT—$b	Apr. 6	251.4	251.7	252.4	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Mar. 30	14.8	14.7	15.5	26.1
Currency in Circulation	Apr. 6	27.5	27.4	27.8	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Mar. 30	8.57	8.64	8.40	4.26
93 Other Centers—$b	Mar. 30	12.60	12.66	12.38	7.60
PERSONAL INCOMES—$b (cd3)	Jan.	233.1	233.2	211.0	102
Salaries and Wages	Jan.	140.4	142.0	131.5	66
Proprietors' Incomes	Jan.	53.0	52.1	51.8	23
Interest and Dividends	Jan.	18.6	18.4	16.5	10
Transfer Payments	Jan.	11.1	10.7	11.2	3
(INCOME FROM AGRICULTURE)	Jan.	27.4	25.8	26.7	10
CIVILIAN EMPLOYMENT—m (cb)	Mar.	57.6	57.2	57.3	51.8
Agricultural Employment (cb)	Mar.	7.4	7.0	6.8	8.8
Employees, Manufacturing (lb)	Feb.	15.7	15.9	16.2	13.8
Employees, Government (lb)	Feb.	5.8	5.8	5.5	4.6
UNEMPLOYMENT—m (cb)	Mar.	3.1	3.2	2.4	3.8
FACTORY EMPLOYMENT (1b4)	Feb.	153	154	159	147
Durable Goods	Feb.	178	181	186	175
Non-Durable Goods	Feb.	134	134	139	123
FACTORY PAYROLLS (1b4)	Jan.	363	378	359	198
FACTORY HOURS & WAGES (1b)					
Weekly Hours	Feb.	39.4	39.4	40.2	40.3
Hourly Wage (cents)	Feb.	137.7	138.1	128.7	78.1
Weekly Wage ($)	Feb.	54.25	54.41	51.75	32.79
PRICES—Wholesale (1b2)	Apr.	158.0	158.1	160.3	92.5
Retail (cdlb)	Jan.	191.6	192.5	190.3	116.2
COST OF LIVING (1b3)	Feb.	169.0	170.9	167.5	110.2
Food	Feb.	199.7	204.8	204.7	113.1
Clothing	Feb.	195.1	196.5	195.1	113.8
Rent	Feb.	119.9	119.7	116.0	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Feb.	8.95	9.42	8.95	4.72
Durable Goods	Feb.	2.47	2.44	2.35	1.14
Non-Durable Goods	Feb.	6.48	6.98	6.60	3.58
Dep't Store Sales (mrb)	Feb.	0.59	0.64	0.62	0.49
Retail Sales Credit, End Mo. (rb2)	Feb.	7.10	7.43	5.90	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Jan.	237	237	251	181
Durable Goods	Jan.	285	276	291	221
Non-Durable Goods	Jan.	209	213	227	157
Shipments (cd2)—Total	Jan.	339	348	333	187
Durable Goods	Jan.	381	395	351	227
Non-Durable Goods	Jan.	314	322	326	158
BUSINESS INVENTORIES, End. Mo.					
Total—$b (cd)	Jan.	54.2	54.0	49.1	28.6
Manufacturers'	Jan.	32.0	31.8	28.5	16.4
Wholesalers'	Jan.	8.6	8.3	7.8	4.1
Retailers'	Jan.	13.6	13.9	12.8	8.1
Dept. Store Stocks (mrb)	Jan.	2.0	2.1	2.0	1.4
BUSINESS ACTIVITY—1—pc	Apr. 2	160.4	161.5	163.7	141.8
(M. W. S.)—I—np	Apr. 2	184.0	185.1	183.5	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 87)

that costs can be cut when executives roll up their sleeves and put on their thinking caps. "Stage sets have been simplified," to quote from our able contemporary, the Wall Street Journal, "scripts have been streamlined," negative exposing has been cut to a minimum, and "working forces have been trimmed. . . . The resulting production speed-up has amazed Hollywood old-timers.

* * *

The **Electric Utilities** are showing what installation of modern equipment can accomplish in effecting longer-range economies. Nearly a million kilowatts were added to their generating capacity during the first quarter, compared with only a little more than 0.4 million in the like period last year. Plans call for total additions of 5.4 million kilowatts this year, against last year's previous record of only 3.4 million. Result: February production of electric energy totaled 23 billion kilowatt-hours — largest for any February on record and 3.6% above the like month last year; yet total coal consumption for that month was 9.6% lower than a year earlier

* * *

Government reports indicate that **Capital Expenditures** for plant and equipment during the first quarter were probably somewhat ahead of the like period last year; but that the second half might show a drop of around 14%. The latter rather gloomy prediction was based upon a survey of executives' intentions as of February, following the sharp break in commodity prices. More encouraging business developments in the next few months could inspire an upward revision of plans.

* * *

Among individual industries there are several bright spots still visible, or reappearing, through the fog of pessimism. With re-opening of the mines, **Coal** carriers have called back workers who had been furloughed during the walk-out. **Farm Equipment** makers report that domestic sales are still running well ahead of last year; though dealers' stocks are a bit heavy, foreign orders are slipping, and at least one small maker of tractors has trimmed production.

* * *

Along with scattered price reductions of merely token size, **Automobile Production** continues to ring up new weekly highs. "Ward's" says that the second quarter's output "may challenge" the peak of 1,867,475 vehicles reached in the corresponding

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
INDUSTRIAL PROD.—1—np (rb)	Feb.	139	191	194	174
Mining	Feb.	149	151	155	133
Durable Goods Mfr.	Feb.	226	227	226	220
Non-Durable Goods Mfr.	Feb.	173	174	180	151
CARLOADINGS—t—Total	Apr. 2	726	596	661	833
Manufactures & Miscellaneous	Apr. 2	349	347	381	379
Mdse. L. C. L.	Apr. 2	97	95	114	156
Grain	Apr. 2	40	43	38	43
ELEC. POWER Output (Kw.H.)m	Apr. 2	5,378	5,404	5,037	3,267
SOFT COAL, Prod. (st) m	Apr. 2	9.6	2.4	2.1	10.8
Cumulative from Jan. 1	Apr. 2	126	117	142	446
Stocks, End. Mo.	Feb.	68.8	67.8	48.6	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Apr. 2	5.1	5.1	5.4	4.1
Gasoline Stocks	Apr. 2	128	128	112	86
Fuel Oil Stocks	Apr. 2	59	59	48	94
Heating Oil Stocks	Apr. 2	49	49	29	55
LUMBER, Prod. (bd. ft.) m	Apr. 2	647	660	684	632
Stocks, End Mo. (bd. ft.) b	Jan.	7.1	7.7	5.7	12.6
STEEL INGOT PROD. (st.) m	Mar.	8.39	7.49	7.61	6.96
Cumulative from Jan. 1	Mar.	24.1	15.7	22.0	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Apr. 7	178	132	94	94
Cumulative from Jan. 1	Apr. 7	2,050	1,872	1,628	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Apr. 2	179	149	234	165
Footwear Production (pairs)m	Jan.	36.9	35.5	40.7	34.8
Pneumatic Casings Production—m	Jan.	5.9	5.7	7.9	4.0
Natural Rubber Consumption (lt)t	Jan.	50.2	46.0	58.2	54.3
Do., Synthetic	Jan.	37.5	35.4	43.0	0.5
Whiskey, Domestic Sales (tax gals.)m	Jan.	4.0	4.0	4.0	8.1

PRESENT POSITION AND OUTLOOK

1929 period. The volume of automobile sales credit outstanding ($2 billion) at the end of February was at a new all-time high and $746 million larger than a year earlier.

* * *

Domestic **Freight Car** deliveries during March were the highest in over two years. Backlogs of unfilled orders were 41% under a year earlier; though equivalent to six-months' output.

* * *

February orders for **Machine Tools** were nearly 5% above last year, led by a more than 100% rise in foreign orders.

* * *

New orders booked by **Furniture** makers during February were only 23% below last year, against a slump of 32% for two months.

* * *

Expenditures on new **Construction** during March were 2% above the like month last year. Expenditures on construction of new dwellings in February were up 6% from a year earlier; but the number of new dwelling units started was off 7%, compared with a decline of only 5% in January. Building and engineering awards during March in 37 states east of the Rockies involved contemplated expenditures of nearly 10% above the like month last year.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. 1—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). lb4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

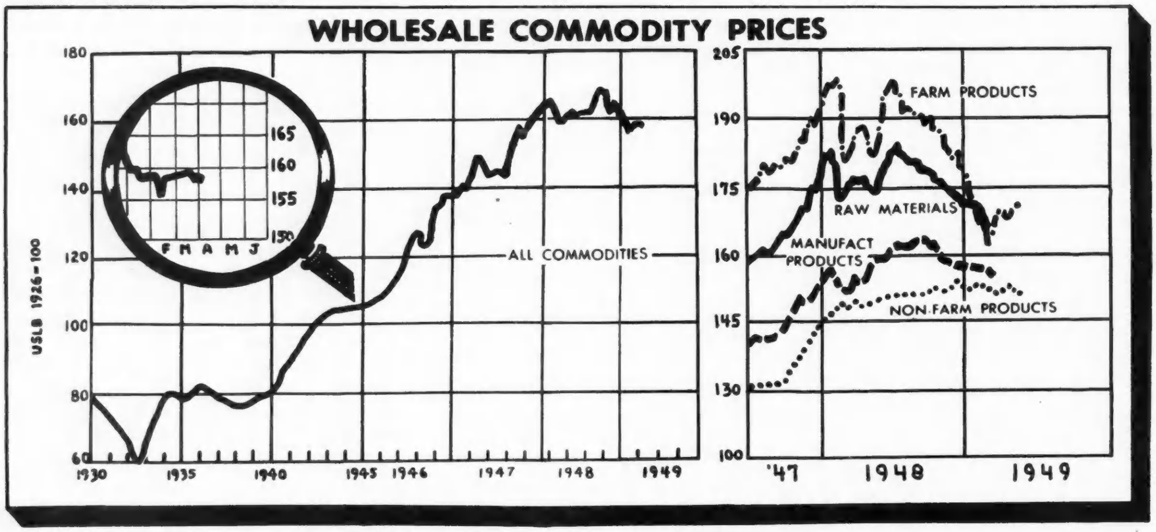
No. of Issues (1925 Close—100)	1949 Indexes High	Low	Apr. 2	Apr. 9
320 COMBINED AVERAGE	127.6	115.5	123.4	123.0
4 Agricultural Implements	200.0	175.6	184.3	179.3
10 Aircraft (1927 Cl.—100)	175.3	145.1	175.3A	174.7
6 Air Lines (1934 Cl.—100)	435.6	366.1	435.6A	435.2
6 Amusement	88.9	75.7	87.1	88.9A
12 Automobile Accessories	188.9	164.1	176.5	173.1
12 Automobiles	29.7	24.2	26.3	25.4
3 Baking (1926 Cl.—100)	19.5	18.4	19.0	19.3
3 Business Machines	237.4	215.9	226.4	227.6
2 Bus Lines (1926 Cl.—100)	130.1	118.3	128.8	130.1A
5 Chemicals	235.2	220.8	229.1	228.7
3 Coal Mining	19.2	14.7	15.2	15.3
4 Communication	39.4	35.0	39.4A	39.2
13 Construction	58.5	52.3	55.8	54.2
7 Containers	284.1	263.5	284.1A	283.6
9 Copper & Brass	95.8	83.4	85.9	83.4d
2 Dairy Products	55.7	53.3	55.5	55.7A
5 Department Stores	54.9	49.8	50.5	51.1
6 Drugs & Toilet Articles	151.5	141.6	151.5A	149.7
2 Finance Companies	268.5	246.1	265.0	266.5
7 Food Brands	154.4	146.0	153.9	154.1
2 Food Stores	67.4	58.5	66.9	67.4A
3 Furniture	70.7	59.7	64.5	63.7
3 Gold Mining	728.8	566.3	728.8A	693.0

(Nov. 14, 1936, Cl.—100)	High	Low	Apr. 2	Apr. 9
100 HIGH PRICED STOCKS	80.68	74.54	77.54	77.43
100 LOW PRICED STOCKS	146.36	130.57	143.24	142.55
6 Investment Trusts	60.3	53.9	59.9	60.3A
3 Liquor (1927 Cl.—100)	688.2	630.7	651.8	651.0
10 Machinery	136.9	122.9	131.4	129.9
3 Mail Order	106.6	91.8	106.6A	105.7
3 Meat Packing	79.9	72.0	77.9	77.6
12 Metals, Miscellaneous	158.1	140.6	147.6	143.1
4 Paper	37.3	33.1	34.8	34.0
29 Petroleum	245.7	210.9	231.9	235.9
21 Public Utilities	116.4	102.4	112.5	116.4A
6 Radio (1927 Cl.—100)	26.7	18.0	18.4	18.2
9 Railroad Equipment	50.0	42.1	45.5	45.2
24 Railroads	23.4	19.5	21.1	21.5
3 Realty	23.7	22.1	23.3	23.7A
3 Shipbuilding	142.2	124.9	142.2A	142.2
3 Soft Drinks	364.7	298.2	364.7A	364.1
14 Steel & Iron	106.2	95.3	99.3	97.6
3 Sugar	48.5	42.0	45.0	45.1
2 Sulphur	263.4	233.8	263.4A	255.4
5 Textiles	132.5	106.0	111.0	106.0b
3 Tires & Rubber	31.6	28.9	31.0	30.9
6 Tobacco	73.5	67.1	73.1	73.0
2 Variety Stores	324.1	308.3	314.9	316.3
17 Unclassified (1948 Cl.—100)	105.3	94.0	103.7	104.1

A—New HIGH since 1948. New LOW since: b—1947; d—1945.

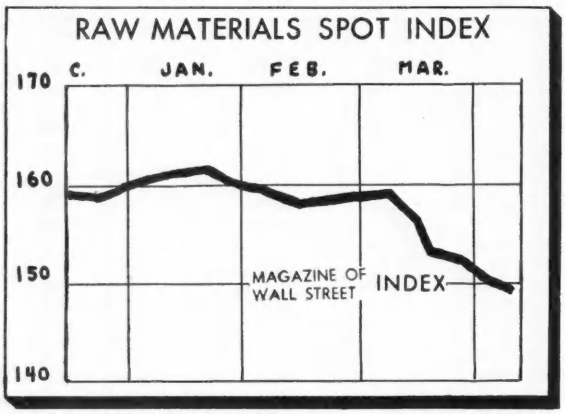
Trend of Commodities

Cotton and grains rallied smartly during the fortnight ended April 9, stimulated by announcement of Agriculture Secretary Brannan's Utopian proposal to guarantee farm incomes at the highest level in history. Hides, wool and metals, however, were weak. Briefly, the politically brilliant idea is to supply consumers with cheap food and cotton textiles, while underwriting all but large farm production at near-record post-war prices — provided growers accede to Government-dictated marketing quotas. Obvious flaws in the plan are that it would cost nobody-knows-how-many billions and destroy incentive to achieve greater efficiency in farming. Designed for appeal to all large classes of voters, it should please everyone but the higher bracket taxpayers. Each farmer will be told how much of his production will come under Government guaranty. Anything over will be at his own risk. Acreage controls haven't proved effective. Take flaxseed, for example. Last year's price was propped at 3.6 times pre-war. Fine! thought the growers, and proceeded to turn out a record crop of 6 times pre-war size. This year the Government lowered support prices by a third and asked for a 40% cut in acreage. Growers have responded with a cut of only 4%. Even when acreage controls are strictly enforced, crops can be increased by greater efficiency. Potato growers cut acreage a third after the war, but are still turning out near-record crops. So, strict marketing controls seem to be the answer. As to food subsidies, England started the experiment ten years ago, and subsidy payments have grown luxuriously each year, from 52 million dollars in 1939 to $2,272 million last year.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August, 1939, equals 100

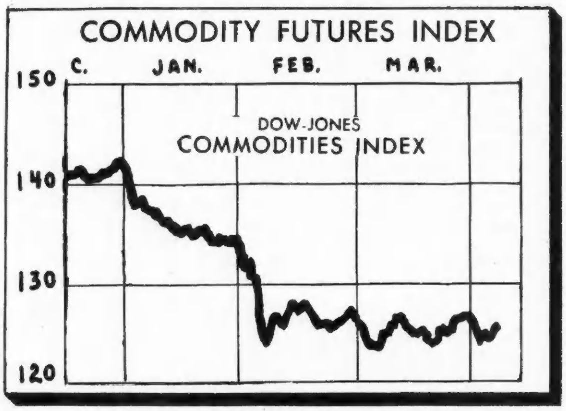
	Date Apr. 11	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	248.7	256.7	268.4	292.8	306.0	321.8	156.9
11 Imported Commodities	250.6	251.3	252.6	271.3	277.4	372.6	157.3
17 Domestic Commodities	247.5	260.3	279.1	308.1	326.1	358.3	156.6
7 Domestic Agriculture	289.2	291.8	295.3	312.7	327.0	377.9	163.9
12 Foodstuffs	282.5	280.4	286.7	320.3	358.9	401.5	169.2
16 Raw Industrials	239.9	253.8	263.7	279.1	275.1	271.5	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1949	1948	1947	1945	1941	1939	1938	1937
High	161.5	162.2	164.0	95.8	85.7	78.3	65.8	93.8
Low	149.2	149.2	126.4	93.6	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1949	1948	1947	1945	1941	1939	1938	1937
High	139.28	168.63	175.65	106.41	84.60	64.67	54.95	82.44
Low	123.87	139.83	117.14	93.90	55.45	46.59	45.03	52.03

Drug Companies in the Investment Laboratory

(*Continued from page* 77)

former $1.52, largely through operating economies and reduced promotional expenses. Lower cost of materials this year may partly offset a possible further dip in volume, but the earnings outlook is rather clouded. Because of a strong working capital position, Lambert paid $1.87½ per share in dividends in 1947 compared with earnings of only $1.52, and regular quarterly dividends of 37½ cents have been paid since, although the coverage last year was pretty thin. Current yield of 7.9% on the shares reflects some doubt as to permanence of the present dividend.

Excellent Growth Record

Merck & Co., Inc. is a manufacturer of fine and medicinal chemicals of long standing, with an excellent growth record. Large output of penicillin and streptomycin helped to create a peak volume of $72.9 million in 1948, of which $15.1 million represented exports. An intensive research program in late years created new products that accounted for 60% of total sales in 1948. At the same time engineering research and large outlays for new equipment have lowered manufacturing costs and permitted price reductions on vitamins, antibiotics and other items. One accomplishment last year that promises good results was the isolation of crystalline vitamin B_{12} from liver, now being offered under the trade mark Corbione. Improvements to facilities in 1948 involved outlays of $9.3 million and $7.8 million additional may be spent in the current year. Gradual completion of these improvements should widen profit margins, aided by a decline in the price of raw materials. Net earnings of $8.5 million in 1948, or $7.36 per share encouraged the directors to lift the quarterly dividend rate to 75 cents per share in the final quarter, and also to declare an extra of 60 cents. The advanced rate should easily hold and an addditional extra can be expected later on.

An uninterrupted dividend record since 1902 attests to long maintained successful operations by Sterling Drug, Inc. Volume of $134.3 million in 1948 established a new peak for the sixteenth consecutive year. About half the activities of Sterling Drug center on production of ethicals, the balance representing a long list of well known proprietaries such as Bayer Aspirin, Phillips Milk of Magnesia, Dr. Lyon's Tooth Paste, Fletcher's Castoria, etc. The company's subsidiaries operate in 13 Latin-American countries and throughout the British Commonwealth. About 38% of last year's sales were outside of the United States. A strongly entrenched trade position tends to stabilize the business in all divisions. The outlook for the current year depends somewhat on consumer willingness or ability to purchase proprietaries and to what extent the price of certain ethical drugs tends to seek a lower level. But new operating advantages should adequately offset any minor volume decline if this develops. In other words, chances are good that 1949 earnings will be comparable to the $3.25 per share reported last year. Hence confidence in the stability of the 50 cents quarterly dividend is warranted.

Traditional Stability of Industry

The stability characteristic of the drug industry, along with clearly marked potentials for secular growth, are elements that tend to hold stock yields rather low compared with other industry groups. For the same reason, price-earnings ratios usually are rather wide. But under current conditions in the general market, when shares in the MWS drug index are selling about 18% below their 1948-49 highs, some rather attractive yields are obtainable for eminently sound equities. This in turn enhances potentials for eventual appreciation during more constructive market periods. Among others listed on the appended table, shares of Abbott Laboratories, Sterling Drug, Bristol Myers, Merck, American Home Products and Parke Davis have considerable investment appeal with yields mostly 5% or better.

The "Facts of Life" About Stocks Selling Under Net Quick Assets

(*Continued from page* 81)

evidently carries far more weight than mere comparison with book values, although it may prove to have been liberally discounted.

Record sales of $1.2 billion in 1948 helped to lift net earnings of Montgomery Ward & Co. to an all-time high of $10.28 per share. Fortified by $413 million working capital and a current ratio of almost 5 to 1, the company started the current year in an impregnable financial position, further strengthened by inventory reserves equal to 10% of the year-end values. Yet we find these shares at 55 quoted several points below net quick asset value. At this level a conservative dividend of $3 per share paid in 1948 affords a yield of 5.5%. A reported drop in sales thus far in 1949 may be adversely affecting investor appraisals, but a more important factor undoubtedly has been the long continued controversy over the top management, likely to come to a head soon. For some time past, Montgomery Ward shares have held to a low price relative to net quick assets, a situation commonly attributed to this wrangle. It is doubtful whether an even stronger current asset status would have altered the relationship.

Another concern with exceptionally satisfactory fundamentals is Endicott Johnson Corporation, second largest shoe manufacturer with an unbroken dividend record of 30 years. The 1948 balance sheet reveals net quick assets per shade of $43.92 and book value of $65. That the shares are selling around 33 admittedly is a striking fact. What counts most with investors, though, is that while the present price establishes a yield of 6.4% and the company carries inventory reserves of $18.3 million against possible future losses, the present dividend rate is fairly liberal in relation to last year's record earnings. In other words, despite most encouraging provisions to meet potentially leaner times, uncertainty over the profitable employment of ample liquid capital tends to curb the zeal of investors.

Shares of more than one large distilling concern are quoted somewhat below their net quick asset value. Leading units in this industry are now rounding the last year in a decade marked with earnings far above former showings. But scarcity of properly aged whiskey has been mainly accountable for their ability in postwar to hold prices at a high level, despite the handicap of top-heavy excise taxes. By midyear some 50 million gallons of whiskey placed in bond four years ago will mature, indicating the approach of severely increased competition and probably reduced prices. Already the retail price of some brands has been lowered in areas where retail sales are monopolized by state authorities. Uncertainties of this kind have stripped much of the glamour that attached to distiller shares a year or so ago when earnings were at their peak, although the trend may have been overdone in some instances. In other words, share prices have significantly discounted the probable near term return of distillers' earnings to a more normal level, as reflected by generous yields and low price-earnings ratios.

That the element of net quick asset values has been a subordinate factor is shown by shares of Schenley Industries, for example, recently quoted at 27 compared with net quick assets of $31.17 and a book value of $48.30. A quotation of 14 for Distillers Corporation - Seagrams compares with net quick assets of $15.84 per share and a total book value of $20.93. An additional sample in the same category is Hiram Walker - Gooderham & Wort, whose equities at 22 are slightly below net quick assets and well under a book value of $35.03. All these cases illustrate how general industry factors influence price behavior of the group.

It is perhaps somewhat more understandable to find share prices of some machinery manufacturers selling below net quick assets. Apart from exposure to broad swings in cyclical demand and consequent fluctuations in earnings, all concerns in this group carry inventories that can less deservedly be termed "quick" than those of non-durable manufacturers. At times when specialized machinery becomes a glut upon the market, mere price cuts alone often fail to move these goods at a satisfactory pace. Hence in studying the quick asset position of such firms, due allowance should be made for relative lack of liquidity in the portion represented by inventories.

Cincinnati Milling Machine Company, the largest general manufacturer of machine tools, is a less striking example of what we have just pointed out, for there are always exceptions to the rule. As of December 31, 1948, net inventories of $10.2 million represented less than a third of current assets, with $21.4 million cash and marketable securities accounting for almost 60%. Yet despite this exceptionally liquid position and a current ratio of better than 6 to 1, the company's shares are selling at 24 in contrast to net quick asset value of $30.38. The disparity seems still more marked if one considers at the beginning of the current year, backlog orders of around $15 million were one and a half times total inventory values, and that the company's earnings and dividend record has been above average.

From the few situations we have discussed, it will be recognized that this attitude of investors pretty well colors every case, and would apply not only to most of the concerns on our list but to an additional 150 we could cite in the same category. As it happens, most of the firms on our table are in various industries where production has now fully met demand and in many instances inventory problems are looming in view of downtrending sales. At such a time investor attitudes are put to a severe test, as evidenced by the present state of the general market.

On the whole the disparity between many share prices and book values appears to be little more than circumstantial, carrying little real import. Broadly speaking, though, so many equities are now selling below net quick assets as to indicate that investors have not fully realized the tremendously strengthened working capital position of industry since the beginning of the war. This newly acquired financial strength can hardly fail to provide a stabilizing influence on dividends in a recessionary period. Discovery that share prices are below net quick assets may therefore be constructive in stimulating a closer study of balance sheets, if little else.

The Chemical Industry Under Readjustment

(*Continued from page* 73)

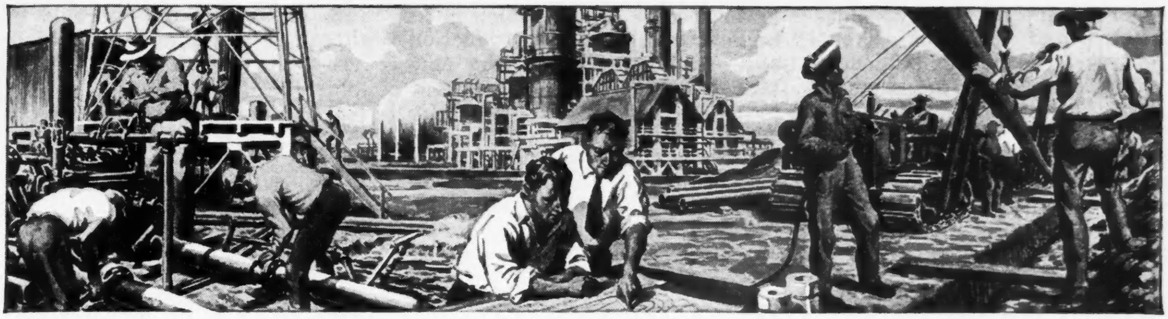
especially evident in other important chemicals, although no serious shortages are apparent. Fertilizers are abundant again and the price structure is reported soft, but demand has been well maintained and competition has not become so keen as to unsettle the market. Naval stores have weakened in reflecting curtailed demand, pointing to narrower margins, but this segment is not particularly important in the overall picture. Carbon black prices have shown indications of vulnerability to any further slackening in consumption.

Satisfactory Earnings Anticipated

As may be seen from accompanying statistics, earnings of most integrated chemical companies held up well last year and 1949 results may be expected to make a respectable showing. Declines were reported by a few companies, such as Atlas Powder and Hercules Powder, whose operations were represented partly by naval stores; Newport Industries was similarly affected. Price weakness in ethyl alcohol was a principal disturbing factor in reducing profits of Commercial Solvents and U. S. Industrial Chemicals. The outlook for earnings of companies specializing in products that again have been subject to severe price cutting is more obscure.

As far as the market appraisal of chemical shares is concerned, it must be admitted that investors have exercised caution in this group as in most other sections of the list and have placed a relatively modest evaluation on long term growth potentials. Price-earnings ratios have been notably low as compared with many periods of the past. Greater selectivity now appears warranted than at this time a year ago.

Nevertheless, selected chemical stocks merit consideration of the long term investor not only as a means of participating in a young and vigorous industry, but for their defensive characteristics as well. The latter factor appears to deserve greater attention than in 1948, for deflationary forces



American Incident

– done in oil !

THE WORLD TODAY is at grips over the age-old question whether rulers can plan the economic life of the people as well as the people themselves.

Dictators – Mussolini, Hitler, Stalin, *et al.* – substitute their edicts for economic law. Every "omnipotent state" must do that. Every effort has followed the same pattern since Hammurabi fixed prices 4000 years ago. First, more and more compulsion with greater and greater penalties. Then follows popular revolt, expressing itself in an acceptance of black markets, the last resort of people who have more respect for natural law in the market-place than in man-made law.

In America, we have gone on the principle that economic laws are discovered – not made.

Seldom has a nation had the opportunity to see demonstrated on such a large scale and in such a short period of time the workings of a free economy, – an incident falling naturally into the old American way of getting things done.

A YEAR AGO, there was fear of an acute shortage of oil and gasoline. Government agencies estimated the United States was 15 per cent short of crude oil to meet 1948 needs, and saw little hope of wiping out this deficit. There was even agitation in Congress to give the Executive the power to ration and fix prices. Only a miracle, it was said, could prevent widespread suffering.

What happened? Plenty of oil and gas. In fact, by the end of the year, 100,000,000 barrels of petroleum had been added to the stock piles of the nation, and proved reserves of crude oil and natural gas liquids were increased by two billion barrels, and natural gas by 8 trillion cubic feet!

IT WAS NOT A MIRACLE. On the contrary, it was the natural American way of guiding production and consumption by the free operation of the price mechanism.

The anticipated shortage caused competition to bid up prices of crude oil. This created greater incentive to discover and produce crude, but incentive, however great, is not enough. There must be the cash or credit to furnish the wages and tools for the expanded activity.

Without the profit incentive and the profits of earlier years it would have been impossible for the oil industry to convert an economy of scarcity in 1948 to one of plenty today in 1949. Furthermore, just as rising prices automatically stimulated production so today excess production swings the price pendulum downward.

Economic law, unhampered, thus works day and night to bring back the balanced economy toward which it is always striving. It has never been done by Executive Order.

You can't "putsch" oil around – nor men of spirit!

CITIES SERVICE played its part in this transition from scarcity to plenty. As a result, you, the public, were able to buy – and you did buy – more Cities Service products and services than in the previous year, in fact, a total of $593,000,000 worth.

> In order to do this Cities Service increased its production of crude oil by 10%.
>
> It refined 72,000,000 barrels, an increase over 1947 of 10%.
>
> It furnished customers 372 billion cubic feet of natural gas, an increase of 17%.
>
> Its sales of electric energy were just short of 3 billion kilowatt hours, an increase of 12%.

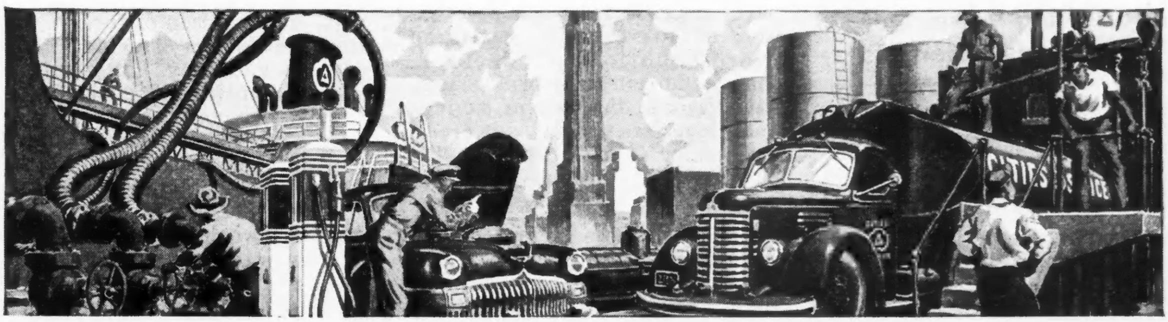
IN SPITE OF these increased activities, Cities Service carried forward its program of development and expansion, investing $112,000,000 in 1948. Stimulated by the free air of American endeavor, unhampered by totalitarian "planning", it is getting ready for further demands of the public for oil, gas, and electric power. It also added to its financial resources in order to meet those demands.

This Company believes that the United States of America under the free enterprise system is still a going concern, and proposes by precept and example to do its part in keeping it so.

A more detailed account of the "American Incident" is given in the Company's Annual Report to stockholders, a copy of which will be sent upon request. Address, 70 Pine Street, New York 5, N. Y.

Cities Service

W. ALTON JONES, *President*



are evident on many sides. Growth and research should counteract declining tendencies more effectively in the chemical group than in most other industries. The near-term prospect is that over-all demand is likely to hold up relatively well, aided by the growing use of comparatively new lines; despite the transition from a sellers' to a buyers' market, this should help stabilize earnings. Up to last year, heavy demand and relative shortages placed stress on production; prospects this year indicate greater scope for exploitation of new products, opening up new markets and broadened earnings potentials over the longer range.

Answers to Inquiries

(*Continued from page* 85)

tion equipment.

Net profits of the company in the year ended December 31, 1948, were $5,441,340 after provision for Federal income taxes, compared with $3,989,991 in the preceding year. After preferred dividend requirements, the 1948 earnings were equal to $10.24 a share on 522,587 shares of common stock outstanding, compared with $8.21 a share on 475,232 share outstanding a year before. A 10% stock dividend was paid December 15, 1948 and cash dividends totalled $2.00 per share. 50c in dividends were paid in the first quarter of the current year.

Sales in 1948 totalled $74,496,-571, compared with $61,172,023 in 1947.

At the end of 1948, current assets totalled $24,909,194, of which $6,366,252 was represented by cash, and current liabilities were $7,802,181; working capital was $17,107,013.

How a High Standard of Living Makes Our Economy Vulnerable

(*Continued from page* 63)

of all is sufficient current income in the hands of people willing and able to spend it for the products of industry and agriculture. Since the spending potential of the high income groups, because of their smaller number, is regarded relatively weak, it is the medium and lower income groups which must be kept purchasing if production and employment is to be sustained. In other words, unless our national income is *currently* spent, either by consumptive spending or by investment in new plants and equipment, some economic decline is inevitable. Saving per se is not a threat, for in a modern economy, saving is merely another form of spending—done through productive investments of the institutions which collect the people's savings. Only if such investment activity lags, as it now threatens to do, will a menace to business prosperity develop.

At present we face a situation where supply in line after line has overtaken demand which henceforth must be expected to be limited to a current basis. But we can widen that basis by promoting a desire for goods which people do not actually or basically need. Thus it is hardly a time for a wait-and-see attitude on the part of business; rather it is time to go after markets to stop them from further evaporation. Since the buy-at-any-price attitude is a thing of the past, consumers must again be prodded to part with their income dollars and this is not as easy as it used to be. One reason is that the cost of living squeeze continues for many people, and another is the shrinking market potential under the conditions described. To the extent that the incomes of the mass consumers are repressed, consumer spending will be inadequate to maintain current business volume.

Balance Difficult to Achieve

In a competitive capitalistic system, the maintenance of a desirable balance between consumption and production is highly essential but the intricate price relationship and the existing disequilibrium renders adjustment difficult. Miscalculations on the part of producers such as creation of overcapacity based on overestimation of demand, changes in consumer preferences, variations in the rate of savings and investment, unwise credit and money policies can upset the balance and produce business crises.

Today all these factors are operative in varying degree. There is overcapacity in certain lines; there has been an increase in the rate of saving and there is the threat of a declining rate of investment, largely due to political and tax uncertainties. Credit policy has only recently been relaxed to stimulate consumer buying but it is questionable whether it has been sufficiently liberalized, or whether it can have optimum results at this stage.

Postwar Influences

Then there is the matter of changes in consumer preferences. Many people have not only spent current income and savings, but piled up considerable debt, for the purpose of expensive postwar homes, cars, appliances and what not, and this spending spree is now strongly tapering off. Future spending is likely to center much more on essentials and on repayment of debt. The man saddled with a large mortgage or high rental commitment is not likely to be a prolific spender in other directions, at least for some time to come. His expenditure for shelter will be at the expense of other forms of spending. To some extent this will reverse a long standing prewar trend when the consumer was willing to accept less housing for a higher standard in form of other goods such as automobiles, appliances, etc.

To the extent that a consumer in the postwar has indulged in all these types of spending — and many have—, he is not only lost to the market for these lines but he may even have to restrict his outlays for essentials. Still it will mean no real sacrifice of living standards since he already owns everything commonly regarded as a hallmark of good living. But not until replacement needs develop will he again become an active consumer, and to that extent the current market will suffer unless new consumers take his place.

These can be provided by our growing population and by intensive cultivation of foreign outlets. The former is a long range process and may not result in early balancing of demand and supply. Export markets have long been relied upon to absorb our surplus production but the export outlook for consumer goods at present is less promising. The worldwide dollar shortage tends to limit exports largely to essential goods and ECA financed shipments where there

Metropolitan Reports to Policyholders on 1948 Business

HERE IS THE Financial Statement of the Metropolitan Life Insurance Company for last year. It is more than just figures, because back of them is the story of what 32,700,000 policyholders have done for their families and themselves.

The role of Metropolitan, like that of any Life insurance company, has been to help policyholders to make effective their individual plans for protection against the uncertainties of life. This Statement is a brief account of its stewardship.

The amount paid to policyholders and beneficiaries in 1948 was $721,366,364. Of this sum, $263,780,754 went to the beneficiaries of 235,000 policyholders; $147,045,672 to some 450,000 individuals for Matured Endowments and Annuities; and $59,403,238 for 650,000 claims for Disability and Accident & Health benefits. In addition, the total paid included sums for cash surrender values, dividends, and other payments due under outstanding policies.

The total payments by Metropolitan to policyholders and beneficiaries during the last 16 years aggregated $9,346,330,825—a sum which has served as a stabilizing influence in homes and communities throughout the country. This total exceeds the Company's assets of $9,125,145,007 as of December 31, 1948.

These assets are held to meet obligations of $8,591,210,201, of which more than 90% represents statutory reserves for future payments to policyholders and beneficiaries. Over and above these obligations, there remained a surplus of $533,934,806, which is about 6% of obligations—a backlog which must be available against the possibility of epidemics, adverse economic conditions or other unforeseeable situations.

The Company's assets guarantee the fulfillment of the $39,958,517,854 of Metropolitan life insurance in force. In addition, they assure the payment of the 448,394 annuity and supplementary contracts outstanding, and the 6,546,412 policies or certificates providing benefits in event of either accident, sickness, hospitalization, surgical or medical expense.

A few other highlights of the Company's 1948 annual statement are: the net rate of interest earned on total assets reversed the trend of many years and increased from 2.94% in 1947 to 3.03%; in line with the experience of business generally, there were some increases in expenses; the rate of mortality was slightly lower than in 1947; the lapse rate was one of the best on record; and new life insurance issued during the year was $2,904,157,071. The amount held for dividends payable to Metropolitan policyholders in 1949 totals $152,067,254.

Metropolitan investments continued in 1948 to serve various sections of the nation and its economy. The Company is interested in making loans, irrespective of size, to either individuals or corporations, which meet the legal requirements with which it must comply.

A more complete review of the Company's affairs will be found in its Annual Report to Policyholders, which will be sent to anyone on request.

STATEMENT OF OBLIGATIONS AND ASSETS... DECEMBER 31, 1948

(In accordance with the Annual Statement filed with the Insurance Department of the State of New York)

OBLIGATIONS TO POLICYHOLDERS, BENEFICIARIES, AND OTHERS

Statutory Policy Reserves		$7,800,699,727.00
This amount, determined in accordance with legal requirements, together with future premiums and reserve interest, is necessary to assure payment of all future policy benefits.		
Policy Proceeds and Dividends Left with Company		485,882,414.00
Policy proceeds from death claims, matured endowments, and other payments, and dividends—left with Company by beneficiaries and policyholders to be returned in future years.		
Reserved for Dividends to Policyholders		152,067,254.00
Set aside for payment in 1949 to those policyholders eligible to receive them.		
Policy Claims Currently Outstanding		35,428,842.47
Claims in process of settlement, and estimated claims that have occurred but have not yet been reported.		
Other Policy Obligations		55,327,132.80
Premiums received in advance, reserves for mortality and morbidity fluctuations, reserve for continuing the program of equalization dividends on weekly premium policies, etc.		
Taxes Accrued		18,835,395.00
Including estimated amount of taxes payable in 1949 on the business of 1948.		
Contingency Reserve for Mortgage Loans		21,000,000.00
All Other Obligations		21,969,435.99
TOTAL OBLIGATIONS		$8,591,210,201.26
SURPLUS FUNDS		
Special Surplus Funds	$ 80,013,000.00	
Unassigned Funds (Surplus)	453,921,805.89	
TOTAL SURPLUS FUNDS		533,934,805.89
TOTAL OBLIGATIONS AND SURPLUS FUNDS		$9,125,145,007.15

ASSETS WHICH ASSURE FULFILLMENT OF OBLIGATIONS

National Government Securities		$3,389,262,335.35
U. S. Government	$3,133,829,569.00	
Canadian Government	255,432,766.35	
Other Bonds		3,562,208,170.57
Provincial and Municipal	$ 69,755,510.23	
Railroad	501,930,398.52	
Public Utility	1,152,792,757.79	
Industrial and Miscellaneous	1,722,176,660.28	
Bonds of the Company's Housing Development Corporations	115,552,843.75	
Stocks		112,252,333.58
All but $4,095,050.58 are Preferred or Guaranteed.		
Mortgage Loans on Real Estate		1,138,935,808.40
Mortgage Loans on City Properties	$1,045,046,270.06	
Mortgage Loans on Farms	93,889,538.34	
Loans on Policies		364,630,189.90
Made to policyholders on the security of their policies.		
Real Estate (after decrease by adjustment of $25,000,000 in the aggregate)		209,417,578.58
Housing projects and other real estate acquired for investment	$ 153,465,256.62	
Properties for Company use	34,716,517.77	
Acquired in satisfaction of mortgage indebtedness (of which $11,709,287.72 is under contract of sale)	46,235,804.19	
Cash and Bank Deposits		151,886,801.05
Premiums, Deferred and in Course of Collection		131,311,715.47
Accrued Interest, Rents, etc.		65,240,074.25
TOTAL ASSETS TO MEET OBLIGATIONS		$9,125,145,007.15

NOTE—Assets amounting to $438,451,141.96 are deposited with various public officials under requirements of law or regulatory authority. In the Annual Statement filed with the Massachusetts Department of Banking and Insurance, Statutory Policy Reserves are $7,800,819,811.00, and All Other Obligations are $21,849,351.99.

Metropolitan Life Insurance Company

(A MUTUAL COMPANY)

1 MADISON AVENUE, NEW YORK 10, N. Y.

METROPOLITAN LIFE INSURANCE CO.
1 Madison Avenue, New York 10, N. Y.

Gentlemen:

Please send me a copy of your Annual Report to Policyholders for 1948.

NAME____________________

STREET____________________

CITY______________ STATE__________

is little room for consumer durables of the types which are rapidly approaching the surplus stage. Potential foreign demand for them at present may be huge but cannot be tapped in really effective manner now while later, foreign competition will have to be reckoned with. The picture would be incomplete, however, without consideration of untapped demand at home which doubtless is substantial. Some of it will be relased by forthcoming price stabilization; but a goodly part perhaps not until disappearance of present economic uncertainties which have prevented it from being activated.

High living standards, in short, are not an unmixed blessing. They have made us the envy of the world and we certainly would hate to part with them. But they also endow our economy with an element of instability due to unpredictable volatility of demand which ever so often causes painful contraction of markets and business. While we may find means of minimizing such cycles, it is questionable whether we shall be able to eliminate them altogether.

For Profit and Income

(*Continued from page* 83)

over, the growth of television is a factor to be reckoned with, capable of reducing circulation of general magazines and cutting into popular book sales. You just cannot look at video a goodly part of most evenings out of the week and still find time to read as much as you formerly did. So you cut down on recreational reading. The market performance of the publishing-printing stock group is likely to remain sub-average for the foreseeable future.

What First Quarter Reports Indicate

(*Continued from page* 61)

lowing periods. Woodward Iron Company, a leading producer of pig iron, reports March quarter earnings of $2.38 per share, compared with $1.50 a year earlier and representing a steady uptrend in each succeeding period. Generally, share holders in the leading steel concerns are justified in anticipating fairly high earnings during 1949, although much will hinge on what develops in the second half year.

Drug Industry

That 1949 has started encouragingly for the drug industry is shown by quarterly reports of several prominent firms. Record sales of $10 million are reported by Sharpe & Dohme, with estimated net of $1.39 compared with $1.09 in the previous March quarter. Plough, Inc. shows earnings of 30 cents per share in contrast to 23 cents in the December quarter and 22 cents in the first three months of 1948. Because of heavy exports and the introduction of 40 new products of late, the volume of Parke Davis advanced some 10% in the first quarter, lifting earnings to an estimated 53 cents per share. Drug manufacturers, as pointed out elsewhere in this issue, are benefitting from high level demand, a low wage ratio and reduced cost of materials. An encouraging earnings trend has been experienced by Mathieson Chemical Corporation, in reporting a first quarter net of $1.48 per share compared with 92 cents a year earlier, though somewhat less than in the December period. This concern is a leading producer of alkalis in various form, supplying a long list of industrial customers.

For the fifth consecutive quarter, Alpha Portland Cement Company reported an advance in earnings on a 12 months' basis. In the March period, $5.04 per share for a full year past compared with $3.18 for 12 months ended March 31, 1948. This company is in one of the few remaining industries likely to enjoy exceptionally well sustained demand for an indefinite term ahead. Net earnings of $2.23 per share in the first quarter were the best of any since the end of 1947 for New York Air Brake. Improved facilities and a sizable order backlog apparently widened operating margins, leading to stepped-up deliveries. Gleaner Harvester, too, showed earnings advanced to $1.90 per share in contrast to $1.70 a year earlier and $1.37 in the December quarter. As buying in the agricultural implement field has resumed a seasonal pattern, this improvement has an especially encouraging aspect.

All concerns in the motion picture industry have been struggling for more than a year against a discouraging combination of operating handicaps. Among others, Loews, Inc. experienced reduced earnings last year, even incurring a slight deficit in the September quarter. To judge from results in the first three months of 1949, the efforts of Loews to cut costs are bearing fruit, for net earnings of 60 cents per share were reported, a better showing than in any quarter since 1947.

Although some time will be required before many concerns can determine first quarter earnings, reported sales furnish a pretty fair clue to how they have fared. White Sewing Machine Company, for instance, reports volume continuing at a record rate and expects first quarter earnings to be highly satisfactory. This concern earned $12.24 per share for full 1948 compared with $3.41 in 1947. Both American Tobacco Company and Reynolds Tobacco announces higher unit and dollar sales in the first quarter and hint that earnings have advanced moderately. During January and February, volume of Pittsburgh Plate Glass Company tended to gain and profits were stable, but in recent weeks demand for window glass has dropped about 50% and the management is not overly optimistic about prices during the rest of the year. S. S. White Dental Supply Company reports a successful first quarter with sales up $490,000 and with prospects that earnings will reflect the improvement. Phelps Dodge Corporation held copper prices in the first quarter to the peak of 23½ cents per pound, thus probably creating stable earnings. But the management is cautious in looking ahead, foreseeing a price decline that may affect profit margins to some degree.

Mixed Overall Picture

On balance, first quarter reports show decidely mixed results, clearly reflecting changes in supply and demand factors, with varying ability of managements to cope with volume and price declines. Fortunately, the shift from boom conditions to a

Highlights from 1948 Annual Report

BENEFICIAL INDUSTRIAL LOAN CORPORATION

AND SUBSIDIARIES

Personal FINANCE CO.

A Financial Service to the American Family

During the year 1948 the business of the Company reached a new high mark in volume of business transacted, number of customers served, outstanding loans at the year-end and profits earned. This was accomplished without advances in small loan rates—the borrower paid no more.

Net earnings were $8,012,503, equal after Preferred Stock dividends to $3.14 per share of Common Stock, compared with $6,431,432 and $2.56 for 1947. During 1948 cash dividends totaling $1.65 per share were paid on the Common Stock, compared with $1.50 for the previous year. The Company has thus paid quarterly dividends on Common Stock continuously since its organization in May, 1929, in addition to five extra cash dividends.

During the year $10,000,000 were added to capital through the sale of Preferred Stock (Series 1948). $5,000,000 of Canadian funds were borrowed for the Canadian subsidiary. In February, 1949, $20,000,000 Fifteen Year 3¼% Sinking Fund Debentures were sold, the proceeds of which are being used to retire bank loans as they mature.

Beneficial Industrial Loan Corporation's subsidiaries operate a system of 475 small loan offices which, with few exceptions, use the name PERSONAL FINANCE COMPANY. There are 455 offices located in 342 cities in 34 states and 20 offices in 12 cities in Canada.

Serving the American Family

Customers are drawn from families in average middle-class circumstances, who are already faced with financial problems. They borrow for medical and dental purposes —to pay bills—to meet unexpected family situations requiring cash. The average American Family living on the Main Streets of America is the backbone of the business.

This "Financial Service to the American Family" is both direct and intimate and runs into vast numbers:— 1,145,826 accounts during 1948—for a total volume of more than a quarter of a billion dollars. And it is also reflected in small numbers—the average unpaid balance at the year-end was $175.18.

This service reaches people in practically every occupation and profession, over a wide geographical area, in large total volume, yet in small "family size" amounts—within their ability to repay.

CONDENSED CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1948

ASSETS

CASH AND UNITED STATES GOVERNMENT OBLIGATIONS		$ 16,827,218
INSTALMENT NOTES RECEIVABLE	$134,503,123	
Less Reserve for Losses	7,518,612	126,984,511
ACCOUNTS RECEIVABLE		416,912
TOTAL CURRENT ASSETS		$144,228,641
OTHER NOTES RECEIVABLE		2,643,232
REAL ESTATE—at Cost (less reserve)		135,463
FURNITURE AND FIXTURES — at Cost (less reserve)		943,389
UNAMORTIZED DEBT DISCOUNT AND EXPENSE AND OTHER DEFERRED CHARGES		520,859
OTHER ASSETS		104,969
TOTAL		$148,576,553

LIABILITIES

LOANS PAYABLE		$ 24,725,000
FEDERAL INCOME TAXES		2,996,693
ACCOUNTS PAYABLE		2,079,847
EMPLOYEES' THRIFT ACCOUNTS		4,375,757
TOTAL CURRENT LIABILITIES		$ 34,177,297
2½% DEBENTURES, DUE MAY 1, 1961		20,000,000
2¾% PROMISSORY NOTES, DUE APR. 1, 1967		20,000,000
PROMISSORY NOTES FOR FIVE MILLION CANADIAN DOLLARS (3½%, DUE JULY 1, 1960)		4,622,000
RESERVE FOR CONTINGENCIES		700,000
UNEARNED DISCOUNT, ETC.		2,255,789
MINORITY INTEREST IN SUBSIDIARIES		12,521
CAPITAL STOCK AND SURPLUS:		
PREFERRED STOCK (without par value):		
100,000 shares $3.25 Dividend Series of 1946	$10,000,000	
100,000 shares $4 Dividend Series of 1948	10,000,000	
COMMON STOCK ($10 par value): 2,383,100 shares	23,831,000	
PAID-IN SURPLUS	1,185,750	
EARNED SURPLUS	21,792,196	66,808,946
TOTAL		$148,576,553

COMPARATIVE PERFORMANCE

	1948	1947
Consolidated Net Income	$ 8,012,503	$ 6,431,432
Common Stock Earnings per share	$3.14	$2.56
Volume of Business†	$251,649,144	$220,954,601
Number of Transactions†	1,145,826	1,059,171
Instalment Notes Receivable at year-end	$134,503,123	$118,092,186

†Loan Offices only.

CAPITAL STRUCTURE

SHORT-TERM DEBT	20%	$ 29,100,757
LONG-TERM DEBT	30%	44,622,000
CAPITAL, SURPLUS AND RESERVES	50%	75,040,079

The information contained herein should be read in conjunction with the financial statements and notes appearing in the 1948 Annual Report to Stockholders which contains the certificate of Messrs. Haskins & Sells, Certified Public Accountants. This advertisement is published solely for the purpose of providing information. It is not intended for use in connection with any sale or purchase of, or any offer or solicitation of an offer to buy or sell, any securities.

The Company will be pleased to furnish copies of the complete 1948 Annual Report upon request addressed to:

BENEFICIAL INDUSTRIAL LOAN CORPORATION, WILMINGTON 99, DELAWARE

long foreseen adjustment period has not been uniform, as evidenced by the large number of enterprises that are still doing exceptionally well.

As long as the national income remains at a relatively high level, there is little doubt that relatively high unit demand will strongly support industrial activity. Instability of prices, on the other hand, will continue to test the efficiency of every management until competitive influences establish a more dependable level.

Companies with Heavy Order Backlogs

(*Continued from page* 79)

that dividends may be comparable to those of 1948.

Babcock & Wilcox Company, a leading manufacturer of boilers, established a record for peacetime volume in 1948 with sales of $149.5 million. Yet the inflow of new orders during the year was so substantial that the company's backlog expanded by $8.8 million for a total of $158.8 million, equal to more than last year's business. High level operations are thus well assured throughout 1949, almost regardless of the rate at which new orders come in. This warrants confidence in the stability of the $1 quarterly dividend and increases the chance for a year-end extra. A similar situation exists with Foster Wheeler Corporation, an important maker of oil processing plants, pumps, condensers, boilers, etc. Unfilled orders of $93.4 million at the start of 1949 were so much in excess of last year's volume of $76.5 million, and prospects for new orders so bright that the management considers itself fortunate if it catches up with demand in some lines by 1951. Under such conditions, with steel supply becoming more ample and material costs turning downward, it is reasonable to anticipate well maintained earnings and perhaps more liberal dividends for this concern.

Link Belt

Shareholders in Link Belt Company can look forward to a satisfactory year in 1949, to judge from a backlog of $49.7 million. At last year's rate this is equiva-

lent to about five months' sales, a rather high proportion in a business permitting mass production and relatively fast turnover. The large amount of unfilled orders reflects a consistently heavy demand which last year could not be fully met by the company's increased facilities. Here we have another case of where the management views a shrinkage in backlog orders as constructive, in that it assures better service to customers by prompter deliveries. While it is possible that net earnings of Link Belt this year may not fully equal the $14.37 per share reported in 1948, the sizable backlog should assure sales sufficiently high to make the $5.50 dividends paid last year appear safe.

Aircraft Industry

The Government's defense program has rather spectacularly swelled backlog orders of many aircraft manufacturers and their parts suppliers. A qualification in this field, though, is that substantial orders represent "letters of intent" rather than firm placements, at least in some cases. Also, constant changes in design in the past forced more than one aircraft manufacturer into the red despite very large orders on hand, for the time consuming shifts meant endless delays in deliveries, piling up overhead expenses. But experience has now adjusted many of these handicaps and it looks pretty certain that the current big backlogs will assure reasonable profits for an indefinite time ahead. United Aircraft's unfilled orders of $335 million, equal to more than 18 months' business at the 1948 rate, should prove highly beneficial; its Pratt & Whitney engines and Hamilton Standard propellers are in heavy demand by the Armed Forces as well as by the majority of commercial plane manufacturers, aside from its fighter planes and helicopters. The backlog of $233 million by Douglas Aircraft Company compares with 1948 sales of $118 million. This concern has contracts for AD Skyraiders carrying well into 1950 and its experience gained through building more than 10,000 DC-3s and C-47 planes has landed the company some very large orders for the latest type of transport planes. Douglas Aircraft earned $9.72

per share in 1948 and with ample business on its books should continue to cover dividends of $5.00 per share by a comfortable margin.

In the aircraft parts industry several large concerns are assured of a prosperous period ahead by receipt of large scale orders of military origin. Sperry Corporation's unfilled orders swelled by $42 million during 1948 to a total of $162 million, despite deliveries of $120.8 million, a peacetime peak. The large proportion of the backlog representing aircraft and marine instruments assures stable production to offset a possible sales decline by the agricultural division under heavier competition. Bendix Aviation's volume of $162.5 million in 1948 included $60 million automotive products and $68 million aviation items. At the beginning of 1949 an order backlog of $157 million strongly supports prospects for another prosperous year; the larger portion represents Government orders directly or indirectly.

United States Pipe & Foundry Company, in common with others in its special field, for some time past has been unable to catch up with an abnormally heavy postwar demand for its products. While no definite backlog figures are available, the 1948 annual report stated that unfilled orders at the year-end were the equivalent of about ten months' production. On this basis they must have been around $37 million apparently, and compared with a year earlier were about 20% smaller. The management stated that shipments in the first half of 1949 should increase somewhat, though incoming new orders would tend to decline, and similar trends might develop in the second half also. It seems clear that volume should be well maintained, accordingly, due to the benefit of backlog orders, although the latter will gradually shrink in size. Whether earnings can be held close to the record level of $8.14 per share will perhaps largely depend upon price policies of competitors; the relatively simple process of manufacturing pipe could render deferred deliveries rather vulnerable to possible cancellations.

The current unfilled orders of Newport News Shipbuilding & Drydock Company tend to enhance potentials for high level activity for a year or more. At the beginning of 1948, a backlog of $54 million represented almost 90% of the $61 million of the previous year. Though gross income rose to $81.7 million last year, unfilled orders soared to around $199 million at the end of the period and only recently the company was awarded a contract involving about $65 million for construction of a new superliner for the United States Lines. Additionally, Newport News Shipbuilding is the low bidder on five large new oil tankers, though no contract has yet been awarded. Aside from vessel construction, this concern derives substantial revenues from manufacture of

giant turbines as well as from repair work.

As inventories are carried mainly for definite contract work, they are less subject to loss from price fluctuations. Partly for this reason the company has established an unbroken dividend record since 1931. It seems obvious that when work has once started on a new ship, cancellation of the order becomes very improbabable, though until the keel has been laid there is possible time for contract revisions. We mention this because the backlog included an order for a huge aircraft carrier from the Navy, and even yet there seems to be some controvery over it in Washington. However, enough work seems assured to keep the company exceptionally busy for quite a long time, as construction of the other big ship may require almost two years. As net earnings last year on $81.7 million volume equalled $6.01 per share, the large backlog offers considerable promise of sustaining net for an indefinite term.

Locomotive Builders

The well proven reduction in operating and maintenance costs derived from acquisition by the railroads of diesel-electric locomotives has built up backlogs of their producers substantially. As 1949 began, American Locomotive Company had unfilled orders of $105 million that without additions should keep the company busy for about nine months. While the railroads have abruptly curtailed placement of orders for freight cars thus far in 1949, the outlook for locomotive business is promising because of potential savings in operating expenses through the use of Diesels. The same applies to Baldwin Locomotive Works, which early in the current year had unfilled orders of $109 million compared with total 1948 sales of $126 million. Backlogs of both these prominent locomotive manufacturers are probably very dependable, and as materials supplies and prices have become more satisfactory, their operations should continue to show improvement.

Otis Elevator Company's backlog of $98.6 million seems highly dependable because orders are not received until construction programs have fully reached the

active stage, and stem from a large number of sources. Both sales and service bookings last year were the largest in the long history of this leading concern. Besides, building and renovating activities in 1949 seem certain to bring a substantial inflow of new orders for elevators, escalators and servicing, both in the domestic field as well as abroad.

The trend to replace man-operated elevators with self-service lifts as a measure of economy has also gained marked speed. All of which promises well for the company's 1949 sales and earnings.

Freight Car Makers

Manufacturers of railway freight and passenger cars as a rule have sizable unfilled orders, although since the beginning of 1949 these have been shrinking fast. Early in the current year, the railroads abruptly revised their purchasing policies and since then have almost withdrawn from the market. Besides this, the earnings experience of numerous concerns producing railway cars showed wide variations last year, the majority evidently underestimating the cost of their output in the race to capture orders. Thus large backlogs in this division do not necessarily imply altogether favorable profits in the current year, though in some instances costs have been brought under better control. Sales of passenger cars in 1948 were reported unprofitable by both Pullman Incorporated and Budd Company, chiefly due to broadly varying specifications that precluded mass production methods, although their other divisions more than offset the disadvantage.

Compared with 1948 consolidated revenues of $285.9 million of Pullman, Inc., the year-end backlog of $292 million looms large, and unless order cancellations or deferments are received, the company's freight car shops should be kept working at high speed until well into the second half year. The backlog included accumulated orders for more than 16,000 freight car units, as well as 994 passenger cars. The Kellog subsidiary (engineering division) also had substantial unfilled orders to swell earnings potentials.

American Car & Foundry Company's rising costs in 1948 narrowed operating margins somewhat, with the result that net earnings dipped to $3.47 per share compared with $5.26 in the previous year. A $215 million backlog at the year-end, however, provided an opportunity to step up production in future months.

Indeed, March output of 3133 freight cars constituted an all-time monthly record. As dollar-wise the backlog represented considerably more than annual sales in the past five years, it suggests well sustained operations in the current year, barring cancellations, while improved speed in output may also benefit profit margins.

When 1949 began, Bethlehem Steel Corporation had unfilled orders of $671 million, substantially higher than twelve months earlier. Large scale shipbuilding contracts helped to swell the total and pointed to capacity operations in this division throughout 1949. Steel orders, on the other hand, predominated in the picture and since then have been coming in at a rate that assures satisfactory activities for the first half year at least.

Steel orders, of course, are booked on a quarterly basis and the future trend of orders thus depends importantly on the trend of general business conditions. But while steel demand is increasingly coming in balance with supply, there are no signs as yet of any prospective sharp decline. Where steel demand is lessening, other outlets heretofore restricted by steel shortages will be able to take advantage of this development. In short, quarterly steel bookings should continue at a substantial level, making for a continued high rate of activity in the industry.

In studying the working capital position of Bethlehem Steel, it is interesting to note that quite aside from net earnings last year, charges for depreciation and depletion more than offset distributions for preferred and common dividends, not to mention retirement of $2 million long-term debt.

We mention this as the large backlog suggests similar ample earnings for a good many months to come, thus enhancing dividend potentials.

Combatting Deflation with New Government Credit Policy

(*Continued from page 58*)

to bolster a faltering economy. But proper timing of any such measure is a vital factor.

Yet there is no escaping the fact that credit is initiated by consumers, distributors and producers. Banks cannot expand credit unless there is demand for it and conditions are favorable to make loans safely. Right now demand is declining, and in many instances the safety factor is hardly improving. However, in contrast to the depressive 1930s when there was plenty of easy credit but not takers for lack of customers, the situation today revolves largely around the price outlook. Once prices tend to stabilize, demand for credit is apt to improve quickly.

Business vs. Consumer Credit

Differentiating between business and consumer credit, a stronger case can be made for further relaxation of the latter. There is no doubt a definite connection between the decline in retail sales and the drop of over $1 billion in consumer credit during the forepart of this year. Regulation "W" was instituted to check the inflationary rise in prices, a need that no longer exists; besides that, it is questionable whether its counter-inflationary influences have amounted to much, for inflation went along merrily despite its existence. What finally conquered inflation was rising production overstimulated by high prices, not credit curbs. It usually works that way.

Not a Stop-Gap

True, Regulation "W" is not regarded as a stop-gap proposition as for instance the most recent boost in reserve requirements. Rather, as its use to control excessive credit wanes, its influence becomes more important as a preventive of excessive competitive practices. In other words,

continuation of consumer credit control at this stage might be merely reflecting the thought that something had to be done to restrain competition through constant easing of credit terms to the point where overextended retailers and customers alike become highly vulnerable to any sudden adverse shift in consumer earning power with the potential threat of painful repercussions. At the present stage, this threat can be minimized in the opinion of most businessmen. Rather they advocate further liberalization of credit as a means towards sustaining sales, production and employment. After all, the current ratio of consumer debt to savings is still only 32% as compared with 63% back in 1941. While the wherewithal to spend is there, the big problem is for business to persuade consumers to increase their takings, and anything that works in this direction must be regarded as constructive. Naturally it isn't merely a question of facilitating spending by liberal credit terms; obviously it is also a problem of marketing — the offering of new and more attractive goods at prices which consumers find acceptable. But keeping down spending by unnecessarily stringent credit terms is certainly not the answer.

Before mid-year, some of the questions and problems discussed in the foregoing will have been at least partly clarified. By then we shall know to what extent Congress has been willing to maintain the Federal Reserve Board's credit control powers which expire June 30. By then, also, economic conditions will have helped to crystallize the Board's credit policies in so far as they are still undecided. But one important fact is clear today: Inflation is taking a back seat and credit policies must be overhauled accordingly. This marks an important milestone in our economic history.

BOOK REVIEWS

THE ECONOMIC MUNICH
The Havana I.T.O. Charter Inflation or Liberty

By Philip Cortney

Philip Cortney, the internationally distinguished industrialist and student of economics, presents in this book an array of arguments well-founded, in sound economic theory against inflation and exchange-controls, and shows their effects on individual freedom. He traces the causes of our wrong economic policies and finds them in the power of economic falacies due mainly to an inadequate diagnosis of the 1929 depression, to the power of ideas spread by Keynes and, even more so, by some of his befuddled disciples or zealots, and to political demagoguery. The International Trade Organization Charter, he shows, is a result of contemporary economic fallacies, and if ratified would only undermine our individual competitive system and restrict international trade. His explanation of the 1929 depression should be of interest to all economists, statesmen, bankers and business-men who are thinking of remedies to our foreseeable troubles.

Philosophical Library $3.75

THE PRENTICE-HALL BUSINESS IDEAS HANDBOOK

985 practical, time and money-saving ideas have been compiled in this volume by a staff of technical experts in business operation. Literally every phase of business procedure can be remodeled and even revolutionized by the use of these simple, adaptable ideas. There are suggestions for streamlining managerial, advertising, and merchandising functions, plans for speeding up accounting, purchasing, and correspondence operations, as well as routine clerical tasks. All these ideas are today being put to profitable use by alert, progresive enterprises in a successful effort to boost sales while reducing overhead expense.

From top management to the clerical staff, everyone who seeks to expand sales volume and better his own position will find this book a mine of creative ideas. Presidents will welcome plans for the improvement of their business' competitive position. Executives will uncover new techniques for increasing efficiency in their departments. Promotion men, sales managers, purchasing agents—everyone will benefit from these sales-minded ideas.

Prentice-Hall $7.50

SOVIET RUSSIA AND THE FAR EAST

By David J. Dallin

It is in the vast spaces and among the disaffected populations of the Far East that Russia has made her greatest post-war acquisitions of territory and influence, and in this book David Dallin explains how the present critical situation has come about. Beginning in 1931 with the Japanese attack on Manchuria, he traces in masterly fashion the drive to power first of the Japanese, then of the Russians; shows how the Chinese Communists and the similar native party movements of the other countries are used as an arm of Russian foreign policy; and clarifies the seeming riddles of a part of the world where many of the chief American mistakes have been made.

Yale Press $5.00

MONETARY RECONSTRUCTION IN ITALY

By Bruno Foa

Dr. Foa's astute analysis of Italy's financial situation is preceded by a short section presenting a background of basic economic and political conditions in Italy, including the effects of Fascist control and corruption upon the economy of the country. Noting that the problem of Italy's monetary reconstruction is seriously complicated by factors not entirely due to the effects of World War II, the author cites overpopulation and the disproportion between the Italian people's wealth of skills and creative abilities on the one hand, and the country's poverty of physical resources, on the other, as grave barriers to any facile solution to Italy's problems.

Kings Crown Press $2.25

As I See It!

(*Continued from page* 53)

than the facts warrant. They are fully confirmed by the British budget and Sir Stafford's budget speech. They prove that a socialist state as patterned by the British Labor Party is no more than a giant with clay feet, extremely vulnerable to his own shortcomings and incongruities. No wonder the budget had British socialism wobbling on the brink of a severe crisis, facing the possibility of a real election upset. But how does it propose to cope with this situation? By promising more of the same!

In its campaign platform for 1950, the Labor Regime promises to nationalize at least five more major industries if it wins the elections. These include cement, part of life insurance, the sugar industry, private and municipal water companies, and all "suitable minerals" for public ownership. It warns, moreover, that all steps necessary — presumably nationalization — will be taken to prevent a repetition of the 1930 slump in shipbuilding. And key sections of the chemical industry will be nationalized if necessary "to assure vital national interests."

There is no promise to reduce taxes or end rationing but the platform mentioned medical service, price control, guaranteed prices and markets for farmers, and control of land use as major socialist achievements. At the same time it points out that control over capital investment, distribution of industry, industrial building and foreign exchange will be required as permanent instruments of economic planning.

So far Labor's campaign platform. Fortunately for the British people, the Cripps budget has been filling in some of the vital if unpalatable details that should always go with the presentation of any such plan. It illustrates its cost which renders largely illusionary any seeming advantages that may accrue to the recipients of socialist largesse. And realistic comments as offered by the Econ-

(*Please turn to page* 110)

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omist point up the "end of the road" — inevitable bankruptcy of the welfare state.

Therein lies a lesson that we too should take to heart. We too are headed toward a welfare state, and our tax burden, too, is excessive — with all the implications attached to such a state of affairs. Yet hardly a day passes without new Government spending schemes as if our resources were inexhaustible. Let our spending zealots take a good look at Britain. Do they want us to go the same way? We doubt whether the American people will ever develop a liking for austerity, or stand for it.

Market Projecting Business Prospects

(*Continued from page* 55)

glass and clay products, non-ferrous metals and products, alcoholic beverages, and rubber products "topped" in the first quarter of 1947. Those of textiles, machinery and lumber reached their peaks in the first quarter of 1948. Output of manufactured foods, paper products and tobacco products was at its peak by the second quarter of 1948.

It is probable, although not yet a matter of record, that the indexes of printing and publishing, chemicals, petroleum and coal (combined) and minerals (total) saw their peaks in the fourth quarter of last year. The high in steel output may have been seen in the first quarter of 1949, while that in automobile production is a possibility of the second or third quarter this year. In addition to the story told by these indexes, it may be noted that seasonally-adjusted retail trade volume has been in a moderate downtrend for nearly a year now; that the drug, motion picture and air transport industries have gone through complete, or virtually complete, cycles of adjustment since 1946; and that total building activity made its top some time ago, but is still at a good level and is currently showing fully seasonal improvement.

These variations, differing earnings potentials for 1949 and the longer term, and differing degrees of dividend security go far to account for the market's uncommonly strong accent on selectivity as each industry and company is adjusting itself to prospective conditions. So far, in short, it is a healthy adjustment in business and within the commodity price structure, and one not likely to spiral greatly this spring or summer. We are seeing a predominantly voluntary liquidation of business loans—and in the stock market there is no significant margin debt to reckon with. Probably good stocks are in stronger hands, by and large, than ever before after an inflationary boom. There is no change in our selective, middle-road policy.

—Monday, April 18.

BOOK REVIEWS

THE EUROPEAN RECOVERY PROGRAM

By Seymour E. Harris

The Marshall Plan is blessed by internationalists, by farmers and business men who want markets for their surplus products and by those who see in the program a tool for the defeat of Communism. It is roundly cursed by Communists and fellow-travelers throughout the world, by isolationists at home, and by nationalists abroad. Caught in this crossfire of argument, the man in the street, whose taxes pay for ERP and who hopes his investment is a sound one, has had little chance to judge for himself the wisdom of taking Secretary Marshall's prudent risk. This book gives American citizens the opportunity they need. It is the first thorough analysis of the European Recovery Program by an established expert, and it is written in language anyone can understand.

Will ERP bring European recovery? How will it affect our own economy? These simple, urgent questions are in everyone's mind, and Mr. Harris provides the facts upon which sound answers to those questions and sound policies for the future can be based. In presenting what is likely to be the most discussed political issue for years to come, he assesses the strengths and weaknesses of the program in considerable detail. He discusses the major economic and political issues abroad and at home he evaluates ERP in relation to the financial imbalance between Europe and the United States; he shows what it will cost and how it may add to the inflationary pressures on the American economy he appraises the chances for European recovery.

Mr. Harris is in favor of the Marshall Plan. He also has a concern that the administration of the Foreign Assistance Act should take account of whatever risks are involved, and he offers cogent suggestions for consideration when the legislation is again reviewed early in 1949 and later years. His book, based on the mass of documents issued by European countries, Congress, and the executive agencies and expert committees, gives the voter, the economist, and the government expert a highly reliable and comprehensive survey of a novel and dramatic investment in world stability.

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By Walter Duranty

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By Winston S. Churchill

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Amidst all these stirring events, Mr. Churchill had to manage the British internal economy; guide the welding of the Commonwealth and Empire into a unified and effective fighting machine, and carry on complex negotiations with the United States leading to Lend-Lease and the other aid "short of war" which this nation was then willing to give to Britain in her single-handed struggle.

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